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ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2081

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ENERGY CONSUMPTION DEVELOPMENTS REVIEWED

Prague SVET HOSPODARSTVI in Czech 11 Nov 80 pp 1, 2

[Article by -vt-: "Trend in Energy Consumption"]

[Text] More effective management and better utilization of all types of fuels and energy is one of the basic intentions of economic policy formulated by the 15th CPCZ Congress for the period of the Sixth Five-Year Plan. This task becomes even more urgent particularly in connection with the profound, fundamental and permanent changes in the conditions of fuel and energy supply which have been taking place in the world since the mid-1970's.

During the Fifth Five-Year Plan, almost the entire increase in the primary energy needs of the CSSR was met by the imports and particularly by the imports of refined fuels from the Soviet Union. During the period of the Sixth Five-Year Plan, however, the situation on the world markets fundamentally changed and securing of necessary fuel imports became more difficult. For this reason, the Sixth Five-Year Plan stressed the increased exploitation of domestic sources of energy in the future economic development. Despite the maximum possible development of the domestic fuel-power basis and further increase in the imports of refined fuels, however, it will not be possible to meet the power requirements of the national economy without a consistent rationalization of consumption of all types of fuels and energy. Like in the previous five-year plan, the CSSR government therefore approved for the period of the Sixth Five-Year Plan the State Rationalization Program of Fuels and Energy Consumption which was regarded as an integral part of the plan drafting and fulfillment process at all levels of management and at the same time as a tool of systematic uncovering and utilization of reserves. A predominant part of fuels and energy savings was to be achieved by economy measures primarily in industry. In addition, the so-called cross-section measures have been worked out, that is technical directions of reducing high energy requirements in several sectors of the national economy. Among them for example are the application of semiconductors devices, utilization of secondary sources of energy, modernization and higher efficiency of large appliances, and manufacture of instruments for heat regulation and measurement.

Despite a number of problems and technical difficulties, the implementation of the rationalization program in the CSR industry was reflected in the long-term tendency of reducing the energy requirements in the production sector. During the first 4 years of the Sixth Five-Year Plan the overall consumption of fuels and energy (in terms of standard fuel) per Kcs one million of gross production was reduced by 10.1 percent--for example in metallurgy and heavy engineering by 16.0 percent, in general engineering by 23.3 percent, in the building materials industry by 20.3 percent, in the centrally managed food industry by 6.4 percent and chemical and consumer industries by 4.8 percent. On the other hand, specific consumption in the power sector supervised by the Federal Ministry of Fuels and Power increased by 1.2 percent. Electric energy consumption alone, again per unit of production, was reduced by 7.9 percent in the CSR industry--for example in metallurgy and heavy engineering by 9.0 percent, in general engineering by 22.2 percent, in building materials industry by 12.9 percent and chemical and consumer industries by 8.6 percent. On the other hand, it increased in the power sector supervised by FMPE [Federal Ministry of Fuels and Power] by 6.5 percent and in the centrally managed food industry by 0.2 percent.

These data may be, of course, distorted by some inaccuracies resulting from the construction of gross production indicators as for example by the different level of purchased raw and industrial materials, extent of cooperation or changes in the production structure. The data in material units, however, point also to the decline in specific consumption of fuels and energy in the most production sectors surveyed which consume a great deal of energy. For example consumption of standard fuel necessary for production of one kWh of electric energy in thermal power plants alone was reduced by 2.5 percent during the first 4 years of the Sixth Five-Year Plan, while in metallurgy the consumption of dry coke on production of one ton of pig iron was reduced by 5.4 percent, consumption of fuel on production of one ton of agglomerate by 4.1 percent, on production of one ton of rolled material by 4.9 percent and on production of one ton of welded steel tubes by 17.2 percent. In the building materials industry, the consumption of fuel on the production of one ton of cement clinkers was reduced by 11.8 percent during the same period, on production of one ton of cement by 25.0 percent, on production of one thousand c.j. [expansion unknown] of burnt materials used in wall construction by 4.0 percent and on production of one thousand square meters of ceramic floor tiles by 13.4 percent. In the glass industry, consumption per ton of melted glass was reduced by 12.0 percent.

Although the standard consumption of electric energy declined in a number of production sectors, it increased in some instances particularly in connection with further mechanization or automation of the production process. During the first 4 years of the five-year plan consumption decreased for example per material unit in production of rolled materials by 2.3 percent, of welded steel tubes by 10.2 percent, of plastics by 6.2 percent, of pressed fiberboard by 9.5 percent, of cement clinker by 1.1 percent and burnt roofing material by 14.2 percent. On the other hand, standard consumption increased for example in production of pig iron by 0.8 percent, of seamless steel tubes by 11.1 percent, of calcium carbide by 1.3 percent, of bleached wood pulp by 11.2 percent and of burnt materials used in wall construction by 4.6 percent.

The analyses of economy measures enacted in some enterprises of the CSR reveal that the fuels and energy savings have been achieved by:

--the introduction of less energy consuming technologies such as in metallurgy the modernization of heat processing of metals by continuous furnaces and refining lines; in the building materials industry by the dry method of production of cement clinkers and installation of tunnel furnaces in brick production;

--the modernization of appliances consuming a great deal of energy, particularly of the obsolete boilers with a low heating effect;

--making use of more efficient sources of energy such as central sources of heat, replacement of producer gas by coal gas or natural gas in glass and ceramics production;

--employing of semiconductors for example for regulation of rolling mill trains in metallurgy, for stabilization of voltage in electric melting in glass works;

--controlling the power input of electric appliances and replacement of oversize equipment by smaller units according to the actual needs;

--using more efficient heating systems, better heat insulation of both industrial and nonindustrial buildings, reduction of losses in production and distribution of heat, and better heating control;

--replacement of obsolete types of lighting by gas discharge lamps (vybojky) and more flexible regulation of intensity of lighting in industrial plants;

--utilization of waste heat from the operations;

--in woodworking plants by the utilization of wood waste in the boilers especially modified for this purpose.

Despite these positive results, a number of shortcomings and difficulties exist in management of fuels and energy. The general trend in fuels and energy consumption in the CSR national economy is significantly affected by the relatively small decline in consumption per unit of production in thermal power plants which are the biggest consumers of power generating coal. This unsatisfactory situation has resulted from some shortcomings in construction of new power plants, small proportion of big economical blocks in the total electricity production and inferior quality of the fuel used. Moreover, some additional tasks of the state rationalization program are not implemented consistently. Relatively big is the fuel consumption in the boiler units of other industrial sectors (in addition to the already mentioned power sector). Although the boiler systems have been partly modernized in recent years by reconstruction or installation of new boilers, there is still in operation a large number of obsolete boilers with a very low heating effect. In addition, there is a considerable shortage of new measuring and control devices, the standard of the operating personnel is low in a number of plants and maintenance of older equipment is inadequate. Then there is the problem of spare parts. There has been a slow progress so far in production and use of heavy current semiconductor equipment, light current electric equipment as well as microelectronics, increasing production and introduction of progressive types of control, measuring and lighting equipment and also in the utilization of additional possibilities such as regeneration of used engine oils. Big and mostly unnecessary energy losses still occur in many sectors as for example in the distribution of compressed air which are caused by the leakage in the pressure pipe system and in other instances by the incorrect storage of fuels and their slow combustion in the dumps or insufficient insulation of heat distribution pipes. Likewise, there are reserves in the utilization of waste heat which could be used more effectively for the production of steam or water heating of industrial and agricultural enterprises and eventually also for the households.

The data on the electric energy consumption this year signalize some less favorable trends than last year. While significant savings were achieved in all sectors of both production and nonproduction sphere of the CSR national economy last year, electricity consumption increased more rapidly during the first three quarters of this year than it would correspond to the increased production in basic production sectors. Likewise, the daily load diagram of the electric system reflected some undesirable features such as increase in the load during the morning and evening peak hours, decline in electric energy consumption at the end of work shifts and decline in consumption during the night.

The 18th plenary session of the CPCZ Central Committee reached the definite conclusion that the securing of indispensible fuel and power resources was the prerequisite of further smooth development of the economy and of the living standard. During the Seventh Five-Year Plan, there will be therefore consistent emphasis on the exploitation of domestic resources, primarily solid fuels, and on the implementation of the program of nuclear power plants' construction in cooperation with the Soviet Union as well as on the more intensive implementation of the program of economy and rationalization of the fuel and energy consumption which was approved by the presidium of the CPCZ Central Committee and the CSSR government. Only in this way will be realistic conditions created for a balance between the fuel and energy production and consumption in the state.

10501
CSO: 2400

WAGE DEVELOPMENTS TO BE CLOSELY MONITORED BY STATE BANK

Prague SVET HOSPODARSTVI in Czech 31 Oct 80 pp 1, 3

[Article by Eng Josef Stastny, general director of the Czechoslovak State Bank: "Continuous Attention to Wage Development"]

[Text] Intensification of the incentive effect of wages and consolidation of the principles of merit which working teams and individuals earn for their achievements are some of the preconditions for an efficient development of economy on which the party and central planning and managing organs continuously focus their interest.

In order to develop the incentive effect of wages and to achieve the necessary differentiation of rewards, as required by our economy, realistic prospects must be considered. They are determined by both correctly outlined objectives as well as by their achievement in the creation of material resources in a volume, structure and quality which offer preconditions for uninterrupted income of our population and for further development of our economic potential.

A wage development that corresponds to the growth of social productivity of labor and to the planned development in the production of consumer goods and of services for payment is among the vital factors in the balance of payments for which also the Czechoslovak State Bank and some other institutions are responsible.

In order to overcome the imbalance and the unwholesome trends in the wage development, a system of social regulations of wage funds, applied since 1970, is based on principles which are still valid for the period of the Sixth Five-Year Plan, despite many adjustments and additional specifications. This system makes the ability to draw the planned amounts from wage funds contingent on the fulfillment of the stipulated indicators of performance and profit and on several other factors.

By restricting the regulations applied to the wage control system and by intensified correlation of the opportunities to draw from the wage funds with specific results of the work of the organizations, during the Sixth Five-Year Plan wages could be maintained more or less on the planned level. Thus, for instance, the anticipated growth of average wages for the period of 1976-1980 was up by 14 percent in the economy controlled by the organs of the CSR government, while the plan for the Sixth Five-Year Plan had projected a growth of 15.1 percent.

Nevertheless, this generally positive wage development was achieved while at the same time the objectives in the growth of national revenue were not fulfilled and the planned proportions in the distribution and utilization of the created resources according to the projections for the Sixth Five-Year Plan were impaired. While the five-year plan projected a 4.8 percent annual growth of national economy in the CSR, it amounted in fact to mere 3.7 percent prior to 1979. Thus, relatively more funds were spent for wages than the results of the economic development would justify. It is estimated that in the first three years of the Sixth Five-Year Plan approximately Kcs 1.7 billion of the wages paid in the economy controlled by the CSR government were not covered by material resources to the planned extent. In 1979 this trend was further emphasized by the necessity to deal with the consequences of the emergency in fuel and power supplies and subsequent slippages in the production in the beginning of the year. Basic problems in creating material resources affected the achievement of a desirable structure of products and material services and the fulfillment of tasks aimed at improving efficiency and quality.

Despite deviations from the proportions originally planned for the Sixth Five-Year Plan, however, the projections of the wage plan for individual years have been on the whole fulfilled. Although there were numerous violations of the planned proportions, overall savings above the mandatory limits of wage funds were reported for all four years. Thus, for example, in economic organizations of branches controlled by the CSR government relative savings of wages and other personal costs in 1976 amounted to Kcs 537 million, in 1977 to Kcs 80 million, in 1978 to Kcs 206 million, in 1979 to Kcs 358 million, and considerable savings have been reported for the current year as well. This indicates that the possibilities to draw wages stipulated by the plan and regulatory directives have not yet been fully exhausted.

In the view of the SBCS [Czechoslovak State Bank], the reasons for such diverse tendencies, i.e., nonfulfillment of planned relations in the distribution and utilization of national revenue, with concurrent fulfillment of objectives of the wage plans in individual years, stem from deviations of annual state plans from the proportions of the five-year plan as well as from the very structure of the regulatory directives.

We know that thus far the tools of wage control have not been always correctly used and that their components have frequently produced contradictory results. Despite the applied specifications they still failed to stimulate appropriate interest in higher efficiency and quality.

The changes in the wage control system drafted for the Seventh Five-Year Plan in conjunction with the Set of Measures set the preconditions for elimination of such shortcomings. The purpose of the new measures is to strengthen the role of the five-year plan in the sector regulating wage developments and at the same time, to exert more pressure on rational economic management of labor value added and labor content, to promote the growth of social productivity of labor, efficiency and quality, and thus, to influence the growth of our national economy and the living standard of our population as well.

The tools of material incentives will therefore be aimed in two directions: rational economic management of labor force, and higher efficiency. Efficient management of labor value added will be stimulated by correlating the basic factor of wage funds with the indicator of adjusted value added. That indicator, which as a matter of fact expresses the contribution of the enterprise to the creation of national revenue, will help exert pressure not only on higher savings of labor value added, but also on more economical utilization of raw materials, materials and power. At the same time, unlike in the current practice, an almost identical indicator will be applied to express and measure the level of labor productivity, which will eliminate the double standard in the assessment of wage developments. The adjusted value added indicator will thus replace the current volume indicators whose shortcomings and negative consequences are generally known.

Interest in raising overall efficiency is fostered by correlating the incentive factor of wage funds with the factor of profitability of production assets or, as the case may be, of factors of production. By the same token, the extent of wage funds determined by this efficiency indicator will be substantially above the extent of wage funds determined thus far by the indicator of economic result. At the same time the wage control system will be construed so as to stimulate an interest in accepting more advanced tasks of the plan and to penalize non-acceptance of the assigned tasks.

In order to safeguard proper effect of the new directives by the regulation of the wage development as the key factor of the Set of Measures, enterprises must focus on efficiency, quality and economy in the system of rewards, and thus, on accelerating the growth of creation of resources and national revenue. This system will call for considerable application in work on every level of management. By the same token, demanding tasks must be fulfilled in the framework of the best possible stipulated wage dynamism stemming from realistic prospects of our economy.

Within its capacity the Czechoslovak State Bank which takes part in control and regulation of wage developments will help enforce those economically sound objectives in applied economy. The SBCS will continue to enforce in particular the fulfillment of the tasks stipulated in the state and exchange plans for the purpose of reducing the wage costs, increasing labor productivity and utilizing work forces efficiently. It will systematically check whether the enterprises do not exceed their planned (applicable) column when drawing their wage funds, and it will check for accuracy their calculations in accordance with the new wage control regulations. At the same time, it is aware that the implementation of the new control regulations involves certain risks inherent in the new measures and also the shortcomings still existing in wage control regulation.

The applied indicators will be much more accurate and their fluctuations will affect the amount of wages far more distinctly than thus far. This will pose higher demands on accurate specification of the planned tasks as well as on the creation and utilization of reserves whose importance will substantially increase in view of the presumed fluctuation in the fulfillment of wage control indicators.

The new wage control system will therefore be more demanding in terms of economy. Technically, it will not be any simpler than the currently implemented system. It is not impossible that in the future errors will still be found in calculations of wage funds and in the implementation of control regulations, and that it will be necessary to explain to enterprises the essence and purpose of the new measures. (This applies above all to smaller enterprises, particularly those territorially managed.) Moreover, it will be necessary to face the deep-rooted views of some organizations that the wage control regulations are nothing but a kind of complicated mathematical problem without any economic implications, and that no one but experts from the Payments and Wages department are able to solve them "to satisfaction." Enterprise and their subordinate organs do not always realize that an integral and especially important factor of control regulations represents the measures for improvement of the situation, which must be implemented not only in cases where the planned volume of wages has already been exceeded, but also preventively, when the balance of the planned proportions is in jeopardy. Even the most perfect control system is there ineffective without consistent solution of the developing problems.

Demands on the work of the middle link in the management, which in the new system will guarantee the maintenance of the useable volume of wage funds, will increase substantially, which means that the disclosures and prompt remedy of any disproportions of the wage development in subordinate organizations will depend on the responsibility and thoroughness of the middle link in the management.

The SBCS will cooperate in the regulation and control of wage developments during the Seventh Five-Year Plan, and thus, it will fully apply its authority and ascertain whether the applied measures correspond with the demands of the control regulations. At the same time it will penalize by its own sanctions the shortcomings in the wage development more than before, because in this respect the new regulations controlling the wage development and also specific intensification of efforts stemming from the Set of Measures offer the bank more space. Furthermore, the organs of the SBCS will critically assess and evaluate the enforcement of control regulations and call the attention of the party and other organs of the management to the shortcomings.

Implementation of the concept of wage policies for the Seventh Five-Year Plan, whose observation is one of the main preconditions for a sound economic development, will represent a highly demanding political issue which will require increased and coordinated efforts and more consistent procedures on the part of all organs managing the economic area and of central planning and control organs.

9004
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LONG DELIVERY TERMS CRITICIZED AS HAMPERING PRODUCTION

Prague HOSPODARSKE NOVINY in Czech 7 Nov 80 p 4

[Article by Engr Josef Linc, CSc, Engineering Technology and Economics Research Institute, Prague: "Upsetting Proportionality"]

[Text] One of the momentous problems which all organs of economic management were asked to resolve by the "Set of Measures for Improving the Planned Management System of the National Economy After 1980" is the shortening of long delivery periods. The complex nature of this problem lies primarily in the fact that this problem cannot be solved independently, but only in close context with the entire group of problems outlined in that document. The length of delivery terms reflects the flexibility or inflexibility of the economy in the satisfaction of national economic needs. In this respect, our economy possesses big reserves because delivery terms are unbearably long. Quite standard products which can be obtained promptly or in a few weeks or months abroad can be delivered only after 3-20 months and sometimes even after a longer waiting period in our country. The negative effects of this inflexibility by our suppliers are immense.

Due to the long delivery periods it thus happens that the customers, when they place an order, do not themselves know their own needs because they do not yet have a definite plan, the list of their own customers is not yet complete, the production schedule is not yet final and so on. For this reason, their orders are rather inaccurate and the production plans of their suppliers no longer conform to the needs when they are drawn on the basis of the original orders.

Time Is Really Money

During the long planning period, the customers press for changes in the orders placed with their suppliers in regard to quantity, assortment and deadlines. This frequently happens after the suppliers have already purchased material and started the manufacture of originally ordered products. Although the suppliers object to these changes, they cannot refuse these changes in important instances and must change their plans. As a result, their production capacities are not efficiently utilized, their production cost and inventories increase and they encounter material difficulties in filling the revised orders.

The long delivery periods thus constitute an obstacle to the better coordination of suppliers' production plans with the customers' needs. Due to this fact, considerable quantities of products are constantly manufactured which the customers do not need and, at the same time, other products cannot be manufactured whose shortage upsets the customers' production plans and increases their costs. These disproportions between production and consumption are enormous and increase, in the form of ineffective inventories, by Kcs 20-25 billion every year.

These inventories, however, cannot be regarded as effective because they are not comprehensive. Despite an extra supply on hand (predzasobeni), the customers still encounter considerable material difficulties. The extra supply on hand in the engineering enterprises is illustrated in Diagram 1. It must be taken into account that these are average data because each group of products includes both products whose inventory has been virtually depleted and products whose inventories are many times larger than the data in the diagram indicate.

Diagram 1

Average Extra Supplies on Hand (number of days) at Engineering Enterprises in 1979

Sectional steel	106 days
Pipes	104 days
Electric motors	84 days
Chemical and rubber products	73 days
Building materials	91 days
Saw mill products	107 days

This, however, results not only in freezing labor, material and foreign exchange to the detriment of modernization of machinery and equipment, but also in losses caused by the delays in deliveries to the new capacities under construction which cannot be put into operation on time. Long delivery terms thus also slow down research, development and manufacture of new products and thus contribute considerably to the lag in technical development.

Long delivery periods cause big losses in export of our products to foreign markets. Due to the intense competition, prompt delivery is as important as the technical standard, quality and price of products to be sold. Under the present circumstances we must frequently be satisfied with lower prices and, above all, we lose our positions on the profitable markets to sellers who can make faster deliveries.

This is only a brief enumeration of losses which significantly reduce the efficiency of our national economy and hamper its development.

Crux of the Matter

Long delivery periods are caused by the planning and sales methodology which, with the exception of spare parts, makes it virtually impossible for the producer to maintain adequate inventories. He must ship everything he has produced by the end of the month or quarter and especially by the end of the year, and woe to him who would be delayed by even 1 day in doing so! He would not have fulfilled the plan and his employees would not receive premiums.

For this reason, producers' inventories which can be sold promptly must be held, in accordance with the existing planning methodology, at the lowest possible minimum. Delivery periods, on the other hand, must be long so that the producer has enough time to order material from his suppliers who also cannot maintain large saleable inventories and whose delivery periods also are therefore long. The longer the chain of suppliers, the longer the delivery periods.

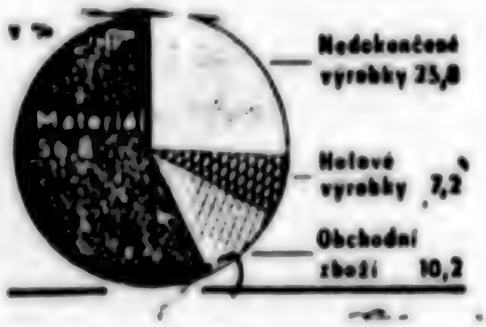
To determine the desirable inventory-sales ratio, it is the producer himself who forecasts his customers' future needs. Since the trends in consumption of individual types of products are substantially more stable on the statewide scale than with individual customers, the producer's sales forecasts can be much more accurate than individual customers' estimates are. The plans of production for stock can then better correspond to the customers' needs than planning production on the basis of order-point control.

The present method of production and sales planning, however, is based on the summarization of inaccurate forecasts of material consumption by hundreds and thousands of customer enterprises. The customers' inventories increase by the differences between [anticipated] production and [actual] consumption, while at the suppliers' warehouses only those products remain which could not be shipped by the end of the planning period (due to the finishing of products on the last day of the period in question, shortage of railroad cars and so on), and possibly also some spare parts. On the average, finished products account for only 7.2 percent of industrial enterprises' total inventories.

Diagram 2 illustrates the inventory structure.

Diagram 2

Inventory structure in industrial enterprises as of 31 December 1978



At first glance, the present method of production and sales planning appears to be effective. Producers manufacture only those products which have been ordered and therefore incur virtually no risk in sales. They do not need any workers for active research and forecasting of customers' needs. It is enough to accept orders from their customers and fill them in accordance with the most convenient production schedule arranged long in advance. As a result, they can accumulate orders into large production batches and thus make better use of their production capacities. The producers can thus more rapidly increase production and labor productivity, reduce costs and achieve higher profit rates.

However, these manufacturers' gains have a negative effect on the customers. They incur much bigger losses due to the inflexible supply system because of the downtime of machinery and labor force, and increased material consumption. All customers must maintain much larger supplies of materials which exceed the "savings" in suppliers' inventories and must employ many more buyers who face difficulties in securing materials even at high cost and obtaining necessary means of transportation.

Inefficient Transportation of Products

The management personnel of customer enterprises and of their supervisory organs are constantly preoccupied with the solution of supply problems and are thus diverted from actual management which is adversely reflected in the standard of enterprise management. The shortcomings of the planning methodology are the cause of long delivery terms in the sales organizations as well. These organizations were set up in order to deliver standard products in a short time. The key plan indicators, however, compel the sales organizations to increase turnover, to reduce costs, to limit desirable inventories, and thus prevent them from making prompt and comprehensive deliveries.

Instead of prompt deliveries, sales organizations achieve a predominant part of their turnover in the periods ranging from 3 to 20 months from the time the order is placed. Their deliveries are frequently non-comprehensive, unreliable and their customers must, therefore, pick up a considerable part of their orders themselves. Moreover, they must also pay a sales surcharge.

For this reason, the customers' inventories of products delivered entirely or mostly by the sales organizations are much larger than the inventories of products supplied directly by the producers, although the exact opposite should be the case. Diagram 3 illustrates the average extra supply on hand in the engineering enterprises. To get a complete picture of the discrepancy between production, indirect sales and consumption, it is also necessary to add to these inventories the 60-90 day supply of the products in question in the sales organizations.

Diagram 3

Average Extra Supplies of Market Organization Products on Hand at Engineering Enterprises in 1979 (number of days)

Screws	252 days
Cables, conductors	147 days
Electrical gear	215 days
Fittings	195 days
Roller bearings	158 days
Standard tools	218 days

The methodology of sales planning in industrial enterprises and sales organizations encourages irrational transportation of products. A considerable part of large shipments which should be made to the customers directly by the producers is carried out through the sales organizations. On the other hand, some small shipments suitable for indirect sales are made ineffectively by the producers. As a result, millions of tons of products are several times reloaded, stored and transported in opposite directions. The larger the volume of these irrational shipments, the more successfully the indicators of the sales plan are met both by the producers and sales organizations.

On Principle and Comprehensively

The shortcomings of the present planning method cause not only long delivery terms and irrational shipments, but also give rise to many problems resulting in unsatisfactory supplier-customer relations: small plan stability, material disproportions, conflicts between suppliers' and customers' economic interests, innovation passivity by the producers and other problems. It is, therefore, imperative to fundamentally improve this methodology in such a way as to eliminate not only some, but all key negative aspects.

As to the shortening of the delivery periods, the improved planning methodology must make possible and effectively stimulate production for stocks of those products in regard to which the producer can better estimate the future needs than the customers themselves. This includes particularly the series production of standard materials, components and subassemblies with wider applicability. It must be pointed out, however, that the shortening of delivery periods for these products will make it possible to shorten the delivery periods for less standard and special-purpose products as well.

In justified instances it is expedient to maintain inventories of semifinished products, components and subassemblies of more complex yet unfinished products in order to shorten both the production and delivery periods for those products which have a common base and can be used in production of large quantities of finished products.

In the first place, however, it is necessary to revise or to use in a different way the principal indicators of production and sales plans on compliance with which material as well as noneconomic incentives of economic workers are based. Among them are the indicators of profit, commodity production, value added, inventory turnover and all indicators derived from them. Otherwise, production for stock for the purpose of shortening delivery dates is absolutely unrealistic and all measures taken without adequate changes in the planning methodology must remain ineffective.

Naturally, the problems of financial planning in the inventory area must be solved with reference to the changes in the methodology of production and sales planning as well. In this respect, the mandatory indicator of the period of inventory turnover is absolutely unsatisfactory. Although it stimulates the enterprise in question to make better use of its own inventories, it prevents it from creating conditions for better utilization of its customers' inventories. And yet, the improvement by the suppliers of conditions for maintaining these inventories is the only possible way of reducing the present ineffective inventories.

It is also necessary to redefine the planning of costs more accurately. As the inventories of products for prompt sale grow, the interests, losses from their depreciation, investment costs and depreciation allowances on capital assets increase. The respective indicators of cost plans must, therefore, be adjusted accordingly. Conditions for maintaining marketable inventories must also be created in the area of price-setting. If the readily realizable deliveries from stock involve substantially higher costs than deliveries over long periods, prices must reflect this fact. Otherwise the conflicts between the suppliers' and customers' interests concerning the promptness of deliveries cannot be resolved.

In connection with the revision of the planning methodology, appropriate changes must also be made in the area of economic law and a number of additional measures must be effected. As in the production sector, it is necessary to solve comprehensively the problems of planning and stimulating activity of sales organizations, too, in such a way as to make their deliveries complete, reliable and prompt.

It is not necessary to emphasize that the improvement of the methodology of sales and production planning is not a simple business. However, there is no other way to shorten delivery periods and to reduce the immense losses which our national economy incurs today.

By shortening delivery periods it will be possible to achieve:

-- a better satisfaction of customers' needs and thus also a reduction of production losses by billions of Kcs annually;

-- freeing of inventories in the value of dozens of billions Kcs which represent frozen material, wages and foreign exchange, in favor of more effective utilization;

-- elimination of many billions of tonkilometers of unnecessarily transported products;

-- increase effectiveness of export because of better competitiveness resulting from prompt deliveries;

-- better satisfaction of working people's needs with consumer goods with substantially smaller inventories in the retail trade sector and smaller losses caused by so-called "sleepers";

— shortening of the research-development-production cycle for the new products.

The complex nature of the problems involved should not discourage the central organs from their consistent solution because the increased flexibility of the economy in favor of customers is the indispensable precondition for increasing the effectiveness of our national economy.

10501
CSO: 2400

CZECHOSLOVAKIA

FUTURE RAW MATERIAL NEEDS AVAILABILITY EVALUATED

Prague MLADA FRONTA in Czech 15 Nov 80 p 3

[Article by Karel Pacner: "Can Raw Materials Be Actually Depleted?"]

[Text] Twenty years is not a long time. And yet, the magic 21st century will arrive in 20 years. A century which is to generate miracles surpassing all our imagination. But what will Czechoslovakia and the world look like at the turn of the 20th and 21st century and of the 2nd and 3rd millenium? How will they change or perhaps not change within this short period of time? We shall try to outline this in our series of articles.

The crust of our planet consists of 92 natural elements. Nine of them--silicon, oxygen, aluminum, iron, calcium, sodium, potassium, magnesium, titanium--form more than 99 percent of these materials. The remaining elements are either freely dispersed or exceptionally concentrated in certain spots--these are the deposits of mineral raw materials from which we exploit them.

Gloomy Forecasts

When we critically look at history, we suddenly realize that the mankind has never used its natural resources very effectively, but always wasted them. How many hundreds of tons of percious metals for example have been used for making jewels? Yes, the masters of this art have managed to make beautiful articles which we admire even today and which frequently belong to the cultural heritage--but most of them lack this artistic and historical value and we admire them largely for sentimental reasons. Or our energy production is based primarily on coal and crude oil today, that is on the raw materials which will be increasingly of greater value to the chemical industry. True, we are as yet not able to do without these two types of fuels, but should we have not developed the methods of their more economical burning already a long time ago?

We have heard very often recently that the most important raw materials and fuels will soon be depleted in the world. These fears are comprehensible. After all, industrial production and comfort of technical civilization constantly increase and require more raw materials and more energy. During the postwar period, the mankind used up approximately an equal quantity of mineral resources as it did during the entire preceding period of its existence. On the other hand, scientific-technological revolution has led to a somewhat better utilization of raw materials and energy so that their overall consumption--per unit of production--has relatively declined. In absolute figures, of course, it continues to increase drastically. During the 1950-1970 period for example, industrial production in the capitalist countries increased by 250 percent, consumption of fuels by 160 percent, of metals by 200 percent and of chemicals by 250 percent. More than 80 percent of this natural wealth are utilized by the industrially developed states, while production increases at a slower pace in other countries and particularly in the Third World.

The gloomiest forecast on the end of our natural wealth was presented in the 1972 study "The Limits of Growth" of a group headed by the prominent American economist D.H. Meadows. According to this estimate, we should have enough gold for 9-11 years, mercury for 13 years, natural gas for 22-38 years, crude oil for 21-36 years, coal for 111-2,300 years...The most important fuels and raw materials should be depleted within the next few decades. This, together with the overpopulation, air pollution, energy and food shortage should result in the global disaster and breakdown of our technical civilization by the 2020's or 2030's.

After overcoming the initial shock, all other experts rushed at Meadows. Yes, they admit, the global problems of civilization are on the increase and must be coped with, but the authors of the study had considerably simplified their calculations. As to the mineral reserves, they did not anticipate at all the potential improvement of processing methods, a more efficient utilization of mineral wealth and discovery of additional deposits.

Changeable Criteria

Much more realistic estimates have been made by the American expert W. Nordhouse who tried to determine the elements contents in the earth crust and their maximum exploitable reserves. He took as the basis the average annual level of world consumption at the beginning of the 1970's and regarded as exploitable those deposits which contained at least 0.01 percent of the respective element at the depth of one kilometer. According to his estimates, we will have enough coal for 5,000 years, uranium for 8,000 years, iron ore for 2,800 years, phosphates for 1,600 years, sulfur for almost 7,000 years, aluminum in fact for 68,000 years, but molybdenum and zinc for only 600 years, copper for 340 years, lead for 160 and gold for 100 years.

Nevertheless, these figures actually reflect the other extreme. The sources of the best useful minerals are definitely limited. According to the estimates of the All-Union Soviet Geological Institute, the nonsocialist countries had at their disposal the supply of iron ore for approximately 150 years, nickel for 1000 years, aluminum from bauxite raw materials for 70 years, copper for 55 years, coal for 600 years, gas for 45 years and crude oil for 35 years by the mid-1970's. However, while increased exploitation of the deposits of these raw materials reduces their reserves, the discovery of new deposits puts off the deadlines originally set for their depletion. It seems for example that the recently discovered underground lakes of crude oil in Mexico, some other states and off-shore waters will postpone the obtaining of the last drop of this fuel to the middle of the 21st century. This relatively simple equation is complicated by two additional variable quantities. In the first place, the rising technological level will enable us to obtain raw materials from the deposits at very low depths which could not be exploited before. Secondly, the rising prices of natural wealth suddenly make it economically feasible to exploit the deposits which were unprofitable before.

Equipment is available to us today with which we can extract only about one third of the content of natural crude oil reserves and only about 40 percent of quality coal in some seams...By the end of this century, the crude oil experts want to have at their disposal equipment which will gradually raise the exploitability of deposits to as much as 60 percent. Work is in progress on the development of several methods aimed at the 100 percent utilization of coal which consist in the conversion of this fuel, right in the mine, into another type of energy which would dispense with the time-consuming and laborious hewing. Unfortunately, neither underground gasification nor liquefaction of coal has yet reached a level which would permit experts to form a clearer idea when these processes could be used as a standard procedure. Moreover, they will require investments of many billions Kcs.

"The basic question is not, whether raw materials will be or will not be available," points out Dr Petr Jakes, CSc, director of the Central Geological Institute. "The basic question is how expensive will be the energy necessary for their processing. If there is enough cheap energy, we will employ expensive and complex equipment for extraction and processing of minerals from the deposits not previously exploited. For example we gain copper from the rocks today which contain at least 0.75 percent of this element--this is what is called the "balance limit"--and there are enough ores of this kind in the world to last approximately 50 years. We do not process poorer ores because this would not pay off. But if we have cheap energy by the year 2000, it is possible that it will become economically feasible to extract copper even from the materials containing only 0.4 percent of this element so that the known reserves will last for 150 years. In the extreme instance we may consider the utilization of rocks. For example: if we melt basalt, we can obtain from it a number of metals though only in the insignificant, as we say trace quantities. This method of obtaining metals cannot be employed without cheap energy because otherwise we could not affort it."

Besides, there are obviously some raw materials of strategic importance which the states must obtain regardless of the costs. The national economy simply cannot exist without them and their import would be difficult for a variety of reasons.

Reserves Not Yet Computed

Energy sufficiency, high prices of raw materials and new requirements of the national economy will obviously lead to a much more critical reassessment of all natural wealth. Naturally, a completely new technology will be necessary to do that. The previously abandoned deposits of for example copper, gold, silver regarded hitherto as poor will be reopened...New elements which have not been exploited so far will be obtained as for example: the Czechoslovak tin ores contain approximately one percent of niobium oxide, an important raw material for the manufacture of supraconductive equipment which is to bring about another revolution in electronics in the 21st century. Some materials are to be extracted from the waste dumps--for example from lithium micas which remain after processing of tin ores lithium will be produced which is to be one of the best sources of fuels for the future thermonuclear power plants.

No geologist can responsibly say today, whether we will have enough raw materials and fuels at the beginning of the 21st century. This will depend upon the future orientation of industry in general, power sector, services and all life. "If we stake everything for example on the thermonuclear energy, we must produce much more lithium," says Dr Jakes. "If we decide in favor of conventional nuclear power plants, we will not be able to do without large quantities of metals for high-grade steel used in reactor vessels and so on. If we decide in favor of geothermal resources, we shall have to obtain more titanium, zirconium and other elements indispensable for the refractory ceramic lining. If we give preference to solar energy we will need more silicon, gallium, aluminum and other materials for the equipment designed to transform energy. The constantly advancing electronization of life creates the need of conductive materials. Let us take note for example how the price of silver rapidly rose in recent years. It is expected that new memories for the computers, cells for preserving large quantities of energy, crystal-based artificial materials, organic substances with biological properties will be developed. All this will be reflected on the market of materials. At the same time, a search is in progress for the substitutes of some types of quality ores of which we do not have enough in our country. Obviously, the time will come soon when we shall produce aluminum for example from the substitute nonbauxite raw materials such as clay and other materials seem to be--including fly ash from the power plants."

According to some estimates, half of the world crude oil reserves is hidden under the sea bottom. Unfortunately, they are too deep in many places or these areas are very turbulent. It is possible that this fuel will become so expensive in a few decades that it will pay off to install mining equipment right on the sea bottom, several hundred meters below the sea level.

Manganese, iron, cobalt, nickel, lead, aluminum, copper and to a lesser extent also zinc, iron and chromium could be obtained from clods lying on the sea bottom at the depths of 3-5 kilometers which are called manganese concretions. For the time being, these reserves are not seriously considered and for this reason they are not included in the tables of exploitable raw materials. But as soon as the technical and economic barriers of ocean mining are overcome, the natural reserves of most raw materials will increase threefold or even more. Although the Americans have already started with the experimental exploitation of the ocean bottom, this method is expected to be employed on a larger scale only at the beginning of the 21st century.

Unfortunately, the natural wealth is not evenly distributed. Most of the industrially developed countries do not have enough raw materils and fuels, while big deposits are concentrated in certain areas which lack essential industries. Approximately 40 percent of mineral wealth are in the developed capitalist states, 30 percent in the European socialist countries and 30 percent in the developing countries. Moreover, 80 percent of the West's reserves are in the United States, Canada, Australia and JAR [South African Republic], while 89 percent of the socialist camp's reserves are in the USSR. West Europe, Japan, most of the European socialist states and 75 percent of developing countries do not have any significant deposits of raw materials. Large quantities of crude oil and natural gas are in Near East and Soviet Siberia, and have been found recently also in some African and Latin American states. Considerable hopes are now pinned on coal whose reserves are estimated as being seven times as big as those of crude oil. The richest deposits of this classic fuel are in the Soviet Siberia, United States, Australia and South Africa.

Some countries like the United States import raw materials and fuels now and save their own natural reserves for the future. In this way, they actually increase the value of their domestic resources because the prices of raw materials on the world markets constantly increase. Moreover, they transfer to other countries the unfavorable ecological effects of mining which are still an inseparable part of these operations. They will obviously open and operate at full capacity their mines, sources of crude oil and natural gas only later on, when the deposits of the rest of the world will be depleted, when technically and ecologically better methods of mining and processing are developed, when we shall know how to use all this wealth more efficiently.

Into the Lower Depths

"In view of the geological structure of our territory, Czechoslovakia can never be self-sufficient," we are reminded of the well-known fact by Engr Dusan Durica, CSc, deputy director of the geological department of the Czech Geological Office. "The situation is all the worse because the backbone of our production is heavy industry which necessarily consumes immense quantities of fuels and some rare raw materials. Besides, the more perfect the engineering products are to be, the more superior ores they need and the more of them we must import."

"Our only wealth are solid fuels," add Dr Vaclav Cilek, CSc, from the same department. At the present pace of mining, we shall have enough anthracit for more than 100 years and brown coal for approximately 50 years. Besides, we have relatively enough nonore raw materials such as kaolin which we need for manufacture of porcelain china, raw materials for making cement, gravel, sand and stones."

We have a shortage of crude oil, natural gas and ores. Most of them we import from the USSR and some types also from other countries. "We are able to cover less than 10 percent of our needs in metals, including iron, from our domestic resources," states Dr Ivan Selk. "This percentage could increase, if we learned how to recycle all materials, that is if we could reuse all raw materials contained in every piece of worn-out machinery. However, we cannot rely too much on it because we actually export engineering products. It would be evidently more important, if we learned how to process really expediently and use much more economically all metals and particularly nonferrous and rare metals."

TABLE
Actual and anticipated increase in consumption of some raw materials in CSSR

	Aluminum	Copper	Tin	Tungsten
1970	100%	100%	100%	100%
1980	140%	108%	124%	142%
2000	200-220%	140-150%	180-200%	180-200%

Extraction of raw materials and fuels will become increasingly difficult in our country. Czechoslovakia is rather densely populated country, moreover, large additional natural resources are hidden at low depths.

"If we want to exploit all known deposits of brown coal in northern Bohemia and Sokolov region, we must continue in relocation of towns, factories, highways and so on from the places below which they are located," points out Dr Cilek. "We have anthracit in some regions of Bohemia. There are big deposits of anthracit below the Beskydy Mountains at the depths of 2-3 kilometers. These deposits are likely to be exploited in the second half of the 21st century. However, we must learn how to mine maximum amount of coal in the existing coal basins. After all, we mine only

38.9 percent of coal from the existing deposits in underground mines. Labor shortage forces us to mechanize mining operations, but the machiner cannot hew coal from thin seams in which coal is of highest quality. Raw material is better and output bigger in surface mines--we obtain 80 percent of all deposits. We will have to employ gradually completely new mining methods and new methods also for burning of inferior fuels."

"Crude oil and natural gas is obtained from medium depths, up to 2,500 meters in our country," says Engr Durica. "Geological surveys have revealed that we have relatively large deposits of these fuels at lower depths--3,500-8,000 meters. The Austrians have drilled a very rich deposit of natural gas at the depth of 7,544 meters in the geological formation which is of similar type as the formations in our country. Naturally, to be able to do that technical equipment available to our crude oil industry must be modernized. Although the domestic output of crude oil and natural gas will never be big, it will make it possible for us to reduce imports."

All conceptions of the future development of the Czechoslovak national economy must be based on the presumption that we are not and never will be self-sufficient in raw materials and fuels. We must, of course, anticipate at the same time that we shall be able to import most of natural resources from the CEMA countries and primarily from the Soviet Union. But nobody has enough crude oil, natural gas, ores and so on to spare. Moreover, their exploitation will be increasingly more difficult and therefore also more expensive. We must therefore concentrate on those types of products whose manufacture does not require too much raw materials and energy and which represent the art mastered by our brains and hands.

There Are No Irreplaceable Elements

V. Michalskij wrote in the French periodical PROBLEMES ECONOMIQUES: "Even if we take into consideration the unreliability of "variable quantities" concerning resources, deposits, life conditions and future demand, we can hardly reach the conclusion that a general physical shortage of raw materials will appear in the future. On the basis of the present state of our knowledge, it can be stated that the situation is less favorable in regard to silver, bismuth, mercury and asbestos than in regard to copper, lead, tin, zinc, molybdenum, tantalum or tungsten. From the global point of view, no difficulties are anticipated in the exploitable quantity of iron, aluminum, titanium, chromium, niobium, tantalum, manganese, vanadium and platinum.

Even in regard to those materials whose known deposits do not seem adequate to meet the needs up to the year 2000, the situation is not as critical as the statistical data seem to indicate. Silver for example can be replaced by platinum in the manufacture of mirrors and other reflective areas, by tantalum in surgical instruments, by stainless steel in tableware. Bismuth can be replaced by iron in production of acrylonitriles and by magnesium and aluminum compounds in pharmaceutical products. In some instances the bismuth alloys can be replaced by plastics."

Generally speaking, irreplaceable raw materials actually do not exist. With the exception of oxygen, hydrogen and carbon, all of them can always be replaced by something and production will adjust--though with comprehensible difficulties--to the new possibilities. This applies also to Czechoslovakia. The solution of this problem does not depend upon geology and mining industry alone, but also on the chemical and processing industries.

10501
CSO: 2400

HUNGARY

MODIFICATIONS IN FOREIGN TRADE REGULATIONS DISCUSSED

Budapest FIGYELO in Hungarian No 48, 26 Nov 80 p 11

[Article by Janos Deak: "Regulation of Foreign Trade"]

[Text] Pricing geared to foreign-trade prices, and the related financial regulations significantly modify the conditions of economic activity for export producers, and for the users and consumers of imports. Favorable changes can be observed this year to date: the keeping of investments and consumption within the planned limits has created an economic atmosphere which has helped to realize, in conformity with the plan, the equilibrium requirements of the balance of trade.

The regulators have strongly influenced the economic processes. It is increasingly noticeable that users are seeking solutions which enable them to produce, from cheaper basic materials, semifinished products and subassemblies, products that also meet stricter quality specifications.

Volume and Efficiency

The export incentive conforms to expectations. At enterprises that claim refunds of the producer's differential compromise turnover tax, the profitability of nonruble-denominated export is satisfactory. Contributing factors have been (1) the significant rise of export prices, and (2) the fact that at the time of forming the 1980 starting prices the profitability of nonruble-denominated export at enterprises with above-average foreign-exchange earnings was higher than the level of profit the enterprises were able to include in their domestic prices.

The enterprises producing for export have a greater incentive than previously to market their products at the best possible price and to expand their turnover of products that can be sold at higher prices. This has made for a closer relationship between the foreign-trade enterprises and the production enterprises, and it has also contributed toward the foreseeably favorable development of this year's trade targets.

In the ensuing economic enivornment the enterprises have a materials self-interest in rapidly exploiting the favorable opportunities on foreign markets. Continuous adjustment of the domestic prices and price levels of such products to the foreign-market prices enhances more-economical consumption of energy and materials. One of the most important new elements of regulation is that the price system and system of financial regulation are closely coordinated. Foreign-trade pricing affects about 60 to 70 percent of the social product.

Manufacturing enterprises are employing the method of adjusting their prices commensurately with their export. Higher foreign-exchange prices and improvement of the profitability of their export are for them factors that determine their entire economic activity. Manufacturing enterprises will be able to stabilize their present and future situation if they improve the efficiency of their export from year to year

Exporting enterprises are demanding more persistently that the foreign-trade enterprises improve their marketing work and develop their organizations on foreign markets. To assert the requirement of economic efficiency, they are more selective than heretofore regarding products and markets. Flexible adaptation to market demand, better quality, delivery on schedule and reliable service are in the forefront of attention. These are still the principal reserve for higher export prices.

The price system and the system of financial regulation demand of the economic units that they adjust to the new conditions. At the start we were not able to develop in all areas the conditions of price regulation and financial regulation that would have been in accord with the requirements. Corrections, on a not very wide scale, were made during the year. But even today we encounter enterprise efforts to "solve" the conditions of export independently of the changing foreign and domestic prices. This occurs primarily at the enterprises where the export-price level is below expectations, as a result of which it would be warranted to reduce the domestic prices.

At the manufacturing enterprises employing export-commensurate pricing it is also noticeable that efforts to improve the efficiency of export take preference over the export volume's expansion. For the enterprises are able to increase the proportion of their nonruble-denominated export only if the export prices rise and the profitability of export improves. (At unchanged export prices and profitability, the enterprises cannot increase their export volume because they are unable to suitably offset in their domestic prices the ripple effects of the rising production costs.) The exporting enterprises have an incentive to expand the export volume only of their most profitable products, regardless of whether they are able to export above or below the average rate of earning foreign exchange.

There are numerous examples of enterprises attempting to improve the average export price and profitability by reducing their export volume, in order to "protect" their domestic-price level. The conditions developed under the system of export-commensurate pricing should be perfected in such a way that the increase of the export volume and improvement of efficiency are achieved in closer harmony between enterprise interests and the interests of the national economy.

In the Spirit of the Regulations' Normative Nature

The regulations governing nonruble-denominated export will not change significantly in 1981. In our price policy we will retain the principle of flexible adjustment pursued up to now, taking into account the fight against inflation, the improvement of efficiency, and the requirement of equilibrium in our balance of trade. The fairly limited correction of the refunding of the producer's differential compromise turnover tax is associated with an attempt to unify refunding, and with the uncertainties of forecasting. In 1981 we will extend the refunding of the producer's differential compromise turnover tax to two more industries (metallurgy, and the vegetable-oil industry). As of 1 October 1980 we reduced by about 3 percentage points the refunding of the producer's differential compromise turnover tax in the clothing industry, and by 5 percentage points in agriculture and the food industry.

The producer's differnetial compromise turnover tax that enterprises producing for export pay on their procurements strongly influences the cost and price levels of such enterprises. Every enterprise must pay this tax on procurements, either directly or indirectly. Therefore we can expect also in the future the refunding of the producer's differential compromise turnover tax. As a stable element of the normative financial system, the refunding of the producer's differential compromise turnover tax enhances formulation of the enterprises' intermediate-term business policies.

Maximum utilization of the cheapr domestic and foreign sources of procurement was hampered in some instances by the amounts of the producer's differential compromise turnover tax, which are geared to the sources of procurement with the highest price levels. On the basis of the experience to date it seems expedient to provide an incentive--where this is warranted--for the increased utilization of the cheaper procurement possibilities.

Export-Price Reserve Fund

One lesson from this year's experience is that price regulation and financial regulation must be perfected so as to strengthen the exporting enterprises' ability to adapt to the demand and price changes on foreign markets. To this end, in nonruble-denominated export, the enterprises should be enabled to establish, by their own volition, reserve funds for export-price differences. This could contribute toward encouraging the enterprises to maximally utilize the favorable marketing possibilities in a given period and to maintain balanced exports even under the subsequent less-favorable market trends.

The prospects of nonruble-denominated export next year, the terms of sale and the development of the exchange rates appear far more promising than this year. Today it is still early to judge to what extent the price regulations and financial regulators can enable exporters to adapt to the more difficult situation. This fact requires continuous monitoring of the economic processes, their forecasting, and corrections in due time.

As the combined effect of the regulator modifications introduced on 1 January 1980, in ruble-denominated foreign trade we wished to achieve that the enterprises' export incentive reach or approximate the level of domestic sales. In general we have fulfilled this objective: profitability is lower than desired only within a narrow circle of enterprises, and higher than desired in a few instances. Regulation has made it possible to adjust to the changed situation the conditions of the enterprises exporting to socialist countries, in accordance with the foreign- and domestic-price changes during the year. A proportion of the enterprises availed themselves of this opportunity during the year, enabling us to fulfill in accordance with the plan the annual agreements with socialist countries.

Our exchange-rate policy in ruble-denominated trade follows the practice of years past, essentially retaining the cross rates between the ruble and other foreign currencies. As of 15 October 1980, the transferable ruble's exchange rate has been modified from 28 to 27 forints per transferable ruble.

Likewise the possibility of annual changes in the socialist contractual prices warrants that for the enterprises exporting to socialist countries we form also next year's financial bridges in such a way that takes into account the combined effect of changes in the domestic prices, socialist contractual prices and the ruble's exchange rate.

According to our present experience, the foreign-trade regulators' modification for 1981 will not affect the proportions of profitability that have developed in 1980; it will maintain the relatively favorable profitability of nonruble-denominated export, and also the profit rates on domestic sales and ruble-denominated export that are approximating each other. However, the maintenance of these proportions of profitability will require intensified effort in the spheres of both production and marketing, because the conditions on foreign markets in 1981 will foreseeably be less favorable than this year.

1014
CSO: 2500

FORMULATION OF RATE OF EXCHANGE POLICY DISCUSSED

Budapest FIGYELO in Hungarian No 46, 12 Nov 80 p 3

[Article by Lajos Osvath: "Rate of Exchange: Evaluation of Live Labor"]

[Text] The present exchange rate policy has a double requirement: the forint exchange rates should reflect the changes on the international money market; rate value between the capitalist foreign currencies; they should follow the change in the proportionate value between the forint and the capitalist currencies without decreasing export profits through the adjustment of exchange rates. The exchange rates have been more or less satisfactorily insured, through regular adjustments by way of currency basket calculations, so that the exchange rates, determined in forints, would correspond to the proportionate exchange rates established in international practice.

The starting point for determining the rate of exchange may be the change in export and import prices, calculated in foreign currency. Hungarian practice has been based on the changes in export prices. Consequently, the forint nominally increases its value in accordance with the different pace of growth of domestic and export prices. However, in case of worsening terms of trade, the forint is devaluated in practice. Thus the exchange rate changed essentially in proportion to the change in export and domestic producer prices; this automatically and fully recognized both the increase of domestic costs and the results achieved in marketing. Thus the exchange rate policy did not encourage an increase of export efficiency.

Balance Requirements

Under circumstances when it is a main goal of our economic policy to achieve internal and external balance through an increase of efficiency, the exchange rate policy cannot be neutral either. It follows from this that it is more important than ever before to increase foreign exchange revenues economically, which requires at the same time an efficient use of value added and the live labor related to it.

International relations show that a faster increase in productivity in Western Europe made it possible for labor costs to increase to a higher extent than the import (and, of course, producer) prices. Thus, as a result of the change in the exchange rate, the "price" of live labor increased even in countries with nominally devaluated currency.

It is my conviction that a further devaluation of live labor is not a solution for us either. Much rather, we should dynamically increase productivity which would make it possible to increase the "price" of live labor and thus increase our international competitiveness. The exchange rate policy which follows devaluation is not compatible with this requirement, especially if we want to maintain a relative stability of currency.

The effect of the exchange rate policy must not be exaggerated. The entire regulatory system must be so "tuned" that it encourages--or even forces--a constant and significant increase in productivity. The exchange rate cannot be an exception either. It is thus a minimum requirement for our exchange rate policy to insure a maintenance of the forint's real value, i.e., a change in the exchange rate which makes up for the difference between external and internal price increases.

The Borderline

In his article, "Foreign Economic Balance and Exchange Rate Policy," Riecke Werner considers (rightly so) the unchanged exchange rate as devaluation in case of a higher price increase in the foreign market than in the domestic one. It would logically follow from this that the change in the exchange rate which makes up for the difference between internal and external price increases be considered neither as a devaluation nor as a revaluation but as a maintenance of the forint's real value. One reason why this subject must be discussed is that the exchange rate policies worked out for the Sixth Five-Year Plan include this type of exchange rate policy and not a real revaluation. It seems, however, that the author considers every change in the exchange rate which causes the forint to be nominally revaluated as a real revaluation, debating its correctness. In essence, he stands for maintaining the present conception of exchange rate policy: "... the most expedient exchange rate policy seems to be the one which begins with insuring export profitability." And export profitability can be "insured"--or increased--only by devaluating "through regulations," for "we must accept the fact that a larger increase in exports, especially on the short range, entails increasing marginal costs."

Here is the borderline which determines the views supporting the exchange rate policy means a devaluation or revaluation or the maintenance of the forint's real value. Those who think as Riecke Werner, namely, that an expansion of exports that is necessary for maintaining the balance in foreign economy is possible to be realized only through "increasing marginal costs," necessarily consider devaluation, which recognizes a deteriorating efficiency, as an expedient exchange rate policy. It follows logically from this that the regulation must implement a unified requirement system which also recognizes a lower efficiency as measured by international standards.

One reason why the doubts in the increase of export efficiency must encourage us to examine the matter thoroughly is that the probable 1980 improvement of balance in foreign economy (examined on the basis of international comparison) will be achieved through a decreasing efficiency. Our advantage in lower wages has no effect in the competition in the world market.

Our costs must be recognized on the external markets in a way that is more or less discriminatory, keeping our export prices "depressed" in comparison with the prices of capitalist sellers. (Our exports of finished products to the developed capitalist countries carry a duty tax of 11 to 13 percent. Within that, our textiles carry 15 to 20 percent and our machine products 5 to 10 percent. Our farming exports carry 14 to 20 percent and our exports of semi-finished products 5 to 8 percent.) In addition to duties expressed in figures, several other factors keep our export prices lower than the prices of our capitalist partners.

(Another explanation for the depressed prices is that most capitalist countries have a discriminatory policy toward us. Our enterprises cannot know whether their access to the market is permanent or not. If there are contingents, the importer cannot strive to increase the volume--he can increase his profile only through lower prices. This adversely affects our enterprises' bargaining position and may cause an additional price loss of about 10 percent.)

Our situation is made more difficult by the fact that, instead of improving, the conditions of interstate exports have significantly deteriorated in the last decades. Despite our joining the General Agreement on Tariffs and Trade, our status of most-favored-nation in the important European area has in practice changed to the status of least-favored-nation.

Not in a Defensive Way

I would not consider it right for us to adopt a kind of defensive behavior in our exchange rate policy. Accepting a relative loss of efficiency because of some kind of predestination. Riecke Werner's statements about the unavoidable deterioration of conditions in the competitive sphere are strongly debatable. The price-increasing effect of the noncompetitive sphere emerges not only in our country but also in other countries, i.e., in other currencies; in addition, the price increases in the noncompetitive sphere are also manifest in increases of internal prices. In addition to an exchange rate policy which follows the changes in both external and internal price increases, the profitability of the exporting enterprises must not thus necessarily decrease. The misconception regarding this can be traced back to the fact that the author starts out not with a policy which insures the maintenance of the currency's value but with an exchange rate policy which fully compensates for external price increases. (But we cannot very well require from the rate of exchange to have a balancing effect on the enterprise revenues; on the contrary, it must promote a differentiation connected with the increase of productivity.)

It is also debatable that the supposed differentiation in profits (between the competitive and noncompetitive spheres) pushes demand toward the latter. The direction of demand has many requisites; let me mention only one: the products of the two spheres can hardly be substituted in terms of use-value. The problem, incidentally, is a question of price regulations and not a question of exchange rate policy.

I mentioned that the assumption also is incorrect that a larger increase in exports entails increasing marginal costs. Namely, it does not take the fact into account that the increase in exports is feasible also in a more economical structure (and this is the objective of economic policy), i.e., we must promote in the regulation an increase of exports (also supported by the means of the exchange rate policy) which is based on the increased production of exporting sectors that are economical (profitable).

In the case of an active exchange rate policy which follows the differences between external and internal prices, a change in the rate of exchange does not decrease the profitability of exports.

The rate of exchange was given a central role in the new system of producer prices, and became a decisive factor in determining competitive prices. Under such conditions, in my opinion, it is a too one-sided approach when we make export profitability the sole starting point for the exchange rate policy.

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PRICE SYSTEM, EXCHANGE-RATE POLICY DISCUSSED

Budapest FIGYELO in Hungarian No 49, 3 Dec 80 p 3

[Contribution to the FIGYELO debate on exchange-rate policy, by Mrs Mozes nee Bolgarka Szepessy: "Our Price System in the Light of Our Exchange-Rate Policy"]

[Text] A debate on exchange-rate policy has been in progress for some time on the pages of FIGYELO. This contribution wishes to call attention to the relationship between the price mechanism and exchange-rate policy.

In domestic pricing, under the producer-price system introduced as of 1 January 1980, adjustment to the foreign-trade prices can be realized better than previously. In the competitive sectors of manufacturing (basically in engineering, and in a significant proportion of light industry and of the chemical industry) the domestic producer prices were formed by adjusting them to the world-market (export) prices. Pricing in the noncompetitive sectors makes it possible to include in the producer prices the domestic outlays and to realize a profit that is classified as fair. An essential feature of competitive pricing is that in the starting prices the enterprises were able to calculate a profit differentiated in accordance with the level of foreign-exchange earnings, which reflects the efficiency of export.

In the new price system, then, the foreign-market prices influence the development of the domestic price level and price ratios on a much wider scale and directly, i.e., the inflationary effects of the foreign-trade prices also can assert themselves to an increasing extent. In these circumstances, of course, emphasis necessarily focuses on the aspects of maintaining currency stability and of protecting the domestic-price level, and exchange-rate policy assumes increased importance.

In the course of the price mechanism's functioning the requirements of efficiency that the enterprises must meet become stricter at least in two respects: on the one hand an active exchange-rate policy that starts out from the rise of the foreign and domestic price levels compels the enterprises to offset the dropout of their incomes by improving their marketing and pricing, and by cutting their costs; on the other hand the economic units with unfavorable economic efficiency have the added task of preparing for a phaseout of the aid they receive to modernize their production.

Initial Experience

Two essential conclusions may be drawn from the experience with the economy's development and the functioning of the price mechanism during the first half of 1980. (It should be taken into consideration, however, that the experience with the functioning of the price mechanism during the first half of 1980 must be taken with reservation, due to the price freeze ordered in the first quarter of 1980.) First, the differentiation of profitability between and within sectors is very significant. Secondly, the desired harmony between domestic profitability and the profitability of nonruble-denominated export has not developed even within the competitive sectors of manufacturing. The price mechanism did not function consistently, and a wide circle of enterprises did not meet the expected requirements.

In some sectors of engineering, the domestic profitability significantly exceeds the low profitability of nonruble-denominated export. Similar disproportions of profitability developed in the pharmaceutical and the rubber industries. Decisive factors in the emergence of profitability disproportions were the unsuitable regulation of the starting income situation, and the reduction of the exchange-rate level in nonruble-denominated trade. In addition to these two factors, reference must of course be made also to the fact that for the enterprise, due to the price freeze ordered in the first quarter, the time was too short for proportioning incomes. At the start, regulation of the profitability of domestic sales and of nonruble-denominated export was based on the indicator of foreign-exchange earnings (respectively on the related estimated profit rate) that the enterprises forecast for 1980. Some of the enterprises were unable to properly forecast the level of foreign-exchange earnings anticipated in 1980. In addition it may be assumed that the enterprises, when estimating the level of foreign-exchange earnings in 1980, intentionally departed in specific instances from their expected level of foreign-exchange earnings, depending on whether they regarded as more favorable for their specific conditions a higher starting profit or a higher price preference at a lower starting profit.

During the first half of 1980, the exchange rate declined by an average of more than 5 percent on an annual basis. Because of the slump on the world market, in their nonruble-denominated export the engineering enterprises were unable to offset this decline by raising their foreign-exchange prices. This situation was further aggravated by the fact that in engineering export the rise of the price level was more moderate than had been anticipated.

The opposite situation developed in light industry: the profitablity of nonruble-denominated export is significantly higher than the profitability of domestic sales. The higher-than-planned profitability of nonruble-denominated export is explained partially by the fact that light industry's starting producer prices already included among the costs the substantial rise in recent years in the prices of the raw and basic materials used. The profitability of export was influenced favorably by the producers' increasing ability on the world market to recover in the prices of their finished products the high costs of raw materials. In this favorable world-market situation, most light-industry exporters were able to offset through export-price increases the dropout of revenue caused by an upward-revaluating exchange-rate policy, and they were even able to realize additional income.

Is Protection Adequate?

Development of the efficiency of export and of enterprise profitability during the first half of 1980 likewise confirmed the considerable dispersion not only at the start but also in the rates of change. This calls attention to the need of using cautiously the instrument of an active exchange-rate policy in any situation when there is no significant difference between the rise in the level of the foreign-trade (export, import) prices and the rise of the domestic producer-price level, or when the price changes are concentrated in a few commodities or commodity groups. When small differences between the price levels are regulated linearly--through the forint's upward revaluation--the considerable rearrangement of the proportions results in that income shortages arise or persist in sectors of favorable efficiency as well as in sectors of unfavorable efficiency. Despite an upward revaluation decided on the basis of the average conditions, substantial additional purchasing power becomes available to efficient exporters whose profitability is outstandingly high, and this disrupts also the strict regulation of domestic purchasing power.

When exchange-rate policy serves one-sidedly the considerations of protecting the domestic price level, disturbances arise in the functioning of manufacturing's price mechanism. The exchange rates' role in transforming the export and import volumes or structures declines, and this could have unforeseeable structural-policy consequences. For one of the key requirements of restoring external economic equilibrium is a significant reduction of the import intensity of economic growth.

Upward revaluation that exceeds the real rise in the efficiency of export, and of production in general, can permanently disrupt the functioning of the price mechanism, causing various problems in the individual sectors, in accordance with the rules of pricing. A relative drop occurs not only in the price level of nonruble-denominated import but also in the domestic producer-price level of the entire materials and energy sphere, resulting in lower costs for users.

In the manufacturing sectors that employ competitive pricing, also the domestic producer-price level will decline in the wake of a greater-than-warranted reduction of the exchange-rate level. Depending on the content of materials from dollar-denominated import, the cost reductions are able to partially offset the dropout in proceeds from sales, and thus the reduction of profitability at the enterprises in question will occur amidst significant differentiation. In the extreme case, not only the nonruble-denominated export but also the entire activity of these enterprises will become unprofitable, if the price mechanism functions consistently.

The noncompetitive sectors will be in an advantageous situation. According to the principles of pricing, they are able to realize an acceptable level of profit, over and above their production costs at any given time. Thus in these sectors the producer-price level declines at most by the amount of the cost reductions due to upward revaluation, but at the same time the profit level on domestic sales remains unchanged. (In practice we find that the enterprises in question do not reduce the producer-price level as a result of their lower costs, and thus the enterprises are able to realize more profit at the unchanged price level.)

The outlined relative price-level shifts can trigger unfavorable processes in the economy. The relative decline of the price level of basic materials encourages the expansion of material-intensive production. Due to the producer-price level's shift in favor of the noncompetitive sectors and to their unchanged profit, and simultaneously to the diminished income-generating ability of the enterprises in the competitive sectors, the enterprises listed in the noncompetitive sectors at the time of the economic structure's transformation find themselves in a more favorable profit situation. As a result of the noncompetitive sectors' significant weight in consumption, the pressure on the consumer-price level likewise may increase, although a reduction of this price level might have been one of the economic-policy reasons for upward revaluation. The volumes of nonruble-denominated export might be affected unfavorably. Specifically the enterprises in the competitive sectors are encouraged to raise the profitability on nonruble-denominated export, and hence the domestic producer-price level, in such a way that they may discontinue exporting products that become uneconomical at the given exchange-rate level. Finally the danger exists that the enterprises might cut back the proportion of their nonruble-denominated export below 5 percent, in order to be freed of applying the rules of competitive pricing.

The experience to date indicates that an exchange-rate policy of the forint's upward revaluation when there are significant increases in the foreign-exchange prices of foreign trade suitably protects the domestic producer-price level, and thereby also the consumer-price level. Such an exchange-rate policy compels the enterprises to improve their export pricing and generally encourages them to continuously upgrade the efficiency of their production and marketing. At moderate rates of increase in world-market prices, however, also the undesirable effects become evident of an exchange-rate policy that revalues the forint upward: it causes an intolerable decline of income for a wide circle of enterprises, a sharp drop in export and a rise in import; thus external economic equilibrium is affected unfavorably or, to forestall this, individual interventions become necessary that violate the normative nature of the price system and of the system of financial regulation.

Active Exchange-Rate Policy

Forecasts of the sets of external and domestic conditions that determine economic development under the Sixth Five-Year Plan warrant an exchange-rate policy that moderately revalues the forint upward. The objectives that such an exchange-rate policy must serve are the improvement of external equilibrium, transformation of the production and export structures, and protection of the domestic price level. However, the scale of upward revaluation is influenced decisively by the rate of rise in efficiency that can realistically be expected. Failure to take this into account intensifies the conflicts among the equilbrium, price-level-protecting and structural functions of the exchange rates and could disrupt the functioning of the price system and system of financial regulation. As a rule it is expedient to employ upward revaluation when the rise of the export- or import-price level is relatively balanced and free of wide dispersion, respectively when the rate of rise in the import-price level and external price level significantly exceeds the rate of rise in the domestic producer-price level. In other words, in view of the fundamental interrelations that determine the scope of exchange-rate policy, it is important to know the dispersion of the efficiency or profitability of export by enterprises, and to what extent the export-price profit or import-price loss is concentrated in a single commodity group or at a single enterprise. Obviously the situation must be considered differently if, at worsening terms of trade, the bulk of the import-price increase occurs in the energy sector and the rate of this increase lags significantly behind the rate of rise of the foreign-exchange prices in manufacturing.

In the coming five-year plan's period the available foreign-trade price forecasts do not exceed significantly the average rate of rise of the domestic producer-price level. Within the system of regulation, therefore, main emphasis must be on the consistent functioning of the price mechanism. Parallel with this, the forint's upward revaluation may be employed only moderately. It is important that we inform the economic units flexibly and in due time about the shifts in the cross rates between the individual capitalist currencies. By adjusting the forint's exchange rates we must encourage the development of a foreign-exchange structure of export and import that is advantageous also from the viewpoint of the national economy.

Instead of one-time and large-scale measures of exchange-rate policy that respond to the processes ex post, in the future the upward revaluations deemed necessary must be implemented continuously. This requires that in preparing exchange-rate policy measures we rely increasingly on economic forecasts (of prices, export efficiency, improvement of equilibrium, etc.). This practice will also enhance flexible adjustment by the enterprises to the conditions created by an active exchange-rate policy, because pressure to raise the foreign-exchange prices of export will assert itself in due time and constantly.

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REGULATORS' EFFECT ON ENTERPRISES' PERFORMANCE VIEWED

Budapest FIGYELO in Hungarian No 41, 8 Oct 80 p 4

[Article by Laszlo Galik: "The Effect of New Regulators. This Year's Enterprise Operations"]

[Text] Under wage regulation systems tied to performance, the wage development potential of enterprises and cooperatives is a function of the profits they make. In the national economy as a whole, profits expected for the first 3 quarters of the year equal 86.5 percent of last year's "repriced" profits (herinafter: base). This means that the expected annual profits will range about 20 percent above the basis (i.e., approximately equal to last year's true profits in monetary terms).

Profits in industry are expected to be 20 to 30 percent above base profits; this is higher than the average for the national economy as a whole. Within industry, profits in mining and light industry are expected to be almost 100 percent higher than the repriced base profits; in food industry, 50 percent higher. Base profits will be about average for construction, transportation and telecommunications and below average (up until now) in foreign trade.

The relationship between the wage development index and profits is much less direct in other sectors of the national economy; in some cases, profits have no effect at all on wage development potential (for example, in domestic trade).

In 35 of the 142 economic branches, the profit levels expected for the first 3 quarters will be 50 to 100 percent above the base. Among these, 20 belong to industry; this means that profits will be high in a third of all industrial branches.

Further analysis of expected profits shows that, without a productive reexamination, at least 600 enterprises will show profits 50 to 100 percent above the base level. (In particular, 180 to 200 industrial enterprises and 35 to 40 construction industry enterprises will exceed base profits by more than 100 percent; another 150 industrial enterprises and 25 to 30 construction industry enterprises can expect profits at least 50 percent above base profit levels.)

Every sector of the national economy includes some enterprises that can close out the year with outstanding profits. In the light industry sector, 202 of the 513 enterprises and cooperatives, i.e., 40 percent of all operating units, can expect large profit "growth" (which is twice as high as the 20 percent average profit growth expected in other industrial sectors).

Lack of Improvment in Productivity

Of course, the expected rise in profits does not imply a corresponding rate of growth in wage development indices. The rate of profit varies widely, due in part to the kind of wage development index used and in part to differences among various industry sectors and enterprises. Nevertheless, the expected profit increase over the base level is sufficient to conclude that a substantial number of enterprises and economic branches may be in a position to generate wage development opportunities that may ensure above average wage increases for several years, in many cases, presumably, without a corresponding improvement in efficiency.

These statistics provide additional proof of the need for a wide-ranging, thorough reexamination of base wage development indicators. In emphasizing this point, we must also note that wage development reserves sufficient for a longer period may have been generated also in other years. Wide swings in profits have occurred regularly in the past; this must not be ignored.

Relative to the base level, 70 to 74 percent of all economic units are expected to be able to increase profits in 1980. This percentage of enterprises and cooperatives is the same as in 1977-78. Thus, the difference is elsewhere: in the last 3 years, the number of enterprises achieving outstanding profit increases was 180, 220 and 310, respectively; in 1980, we are looking for a number at least twice as high. For most of them, it would be hard to demonstrate any real, substantial improvement in efficiency.

Corrected Wage Indicators

In the last few months an increasing number of enterprises and cooperatives have informed tax authorities of their intention to correct their previous base wage regulation indicators by 15 October. This action is most welcome and worthy of imitation. As an illustration, it is appropriate to present the experience of the last few months.

More than one half (53.4 percent) of all units audited by the organizations of the Receipts Main Directorate had incorrect wage development indicators. The main features of the calculations leading to faulty, imprecise bases were as follows:

--the number of economic units with incorrectly calculated wage development indicators is high in industry (73 percent) but somewhat lower in construction (63 percent).

--On the other hand, the number of enterprises in domestic trade and other sectors of the national economy that have correctly calculated their wage development index is 78 percent and 82 percent, respectively.

--Incorrectly calculated wage development indices occurred most frequently in the cooperative sector.

Some of the deficiencies in repricing have undoubtedly arisen from the uncertainties and incorrect price information that were current at the beginning of the year. Nevertheless, the audits reveal that faulty wage development indices are the result of "one-way mistakes". For 62 percent of the enterprises and cooperatives the wage development index, serving as the basis of incentives, had to be increased, implying a rollback of potential "preferential" wage development.

Most of the mistakes committed in the course of the calculation of the wage development index were intended to create an opportunity for favorable rates of wage development. This is reflected in the fact that the size of increase in the index is consistently higher than that of the reductions.

--In the overwhelming majority of cases (two thirds) where the wage index was found to be too high, the reduction caused by the audit was small (under 2 percent).

--On the other hand, 21 percent of the units involved have increased their low wage development index by more than 20 percent. (There have been no comparable reductions of the wage development index.)

--As a result of the conclusions reached by the auditors, the results of the audited enterprises and cooperatives had to be adjusted by 557 million forints or 29.6 percent (from 1.832 billion forints to 2.439 billion forints). The reductions, on the other hand, total less than 20 million forints. A single enterprise was responsible for 420 million forints of the increase mentioned above; nevertheless, the increases total about 7 times the reductions.

The Effect of Price Rises

In the cases under consideration, the fundamental reason behind "dynamic" profit increases and the resulting high wage development opportunities is the fact that base profits were calculated too low, as we said above. At the same time, the investigations also showed favorable reactions by enterprises, simple measures and adjustments to the new system of price and income regulators. These, however, do not completely justify and explain the striking changes in results observed in a wide range of enterprises. They show, however, that the improvement in results relative to the base level and the corresponding rise of the wage development index is not completely arbitrary and that the steps taken by enterprises toward improved efficiency have also contributed to these results. The most frequently seen means of increasing enterprise profits, especially in industry, was an increase in economic non-ruble exports.

Rising export volumes and improved profitability of exports have contributed to enterprise profits, at least in the enterprises under consideration. In some individual cases, the abolition of the price freeze (starting from the second quarter) and competitive price formation made it possible for these enterprises to increase their domestic prices, resulting in additional income. Several economic units increased economic exports by expanding capitalist contract work.

Non-exporting enterprises have also worked to utilize the opportunities provided by the new price mechanism. According to indications from the audit, small productive units (cooperatives) have agreed with their partner enterprises to set "adaptive" or "proportional" price formulas which enabled them to achieve higher profits compared to the situation at the start.

The intention to raise prices has become apparent during the year in the course of other investigations and observations. According to investigations carried out at about 650 enterprises and cooperatives, one third of all economic units and one half of the 210 industrial units involved have increased or intended to increase their sale prices during the year.

About 25 percent of the enterprises showing relatively high profits have increased profits by improving the economic parameters of their product structure. This was accomplished by eliminating the production of less profitable products and reducing or abolishing activities outside of their basic profile.

Enterprises and cooperatives relied more on reserves in the price and marketing areas than on the opportunities in cost management.

Enterprises are still not paying sufficient attention to the rational organization of their operations. Auditors found only isolated cases where unnecessary capacities have been eliminated or conscious manpower reductions and redistribution have taken place.

Tricks in Repricing

Additionally, the experience of auditing and analysis calls attention to the following. Average prices and indices used to calculate sales receipts are frequently lower than the true price while on the cost side they are usually higher. On the cost side, in industry, this may be seen most of all in the case of imported materials. As a result, initial purchase prices are frequently higher than the ones charged in 1980 (e.g., raw hide, fiber, cotton). Probably, direct imports were repriced on several occasions using different interpretations. (For example, on the basis of annual currency average or initial currency prices, instead of last quarter prices).

The following examples may serve to illustrate the mistakes made in repricing material costs.

The material percentage of the printing, wool and shoe industries under the ministry's jurisdiction for the first half of 1980 was respectively 1.7, 2.1 and 10.7 percent lower than the material percentage for the last year, after repricing. The size of the change can hardly be justified by material savings alone.

The position of furniture industry enterprises under the ministry's jurisdiction in terms of repriced vs. real material percentages in the first half of 1980 provides a good illustration of the extent to which enterprises were in error, sometimes to their own disadvantage. The distribution is as follows:

Time/percentage	Number of Enterprises				
	under 60	60-65	65-70	70-80	above 80
1979, repriced	3	3	4	3	1
1980, first half		6	7	1	

The discrepancies in repricing, illustrated above, may also be seen elsewhere. They are frequently the result in part of a mistaken reliance on 1977 cost relationships in the calculation of prices, instead of using only 1979 costs.

The price differential indices, whose application was made mandatory in repricing domestic construction and assembly earnings in the construction industry, have made no distinction between traditional and new technologies, or they were applied in a mechanistic fashion even when light structural elements were manufactured in-house. Similar behavior was also seen in cases when enterprises and cooperatives applied their branch regulations to activities outside of their branch profile.

To simplify the repricing process, only July and December, 1979 output data were being repriced in the construction industry. The price index calculated in this manner was used as the basis for determining the effect of price changes. Additional distortions have arisen as a result of repricing material costs on the basis of average indices for groups of materials (used in statistical reporting, according to regulations) instead of doing it item by item, while transportation costs were repriced on the basis of May and November data.

On the Trail of the Technological Development Fund

In calculating base profits, enterprises and cooperatives were able to reevaluate their indirect exports on the basis of relatively low domestic prices at the start. At the same time, the accepted order prices paid by foreign trade enterprises are much higher.

The true export price is frequently not only a little bit higher than the domestic price: sometimes it is twice as high. This is especially apparent in cooperative industry. The commission percentages of foreign trade have been reduced but the resulting beneficial effects on profits were not taken into consideration by exporting enterprises and cooperatives. This has also acted to lower the base level.

In domestic trade, the repricing of the purchase price of the goods sold had to be carried out on the basis of stocks on hand as of 1 January, using average indices. The composition of these stocks was often substantially different from the composition of turnover over an entire year, resulting in a low base and a corresponding high wage development opportunity. (The BKM [Ministry of Domestic Trade] has intervened to eliminate distortions at 50 enterprises.)

Reduction of technological development ratios and modifications in the formation of technological development funds have also contributed to a lower base. In this connection, economic units were required to handle the sum provided by the ratio but not used for technological development purposes as part of the fund to be included in costs until 1980. Starting from 1980, cooperatives are no longer required to generate such funds and will not do so. Yet, base profits have not been modified to account for the sums included in the fund during the preceding year.

At first, this might seem insignificant. But, considering that this may amount to 1 to 2 percent of sales receipts (sometimes more), and that the real profit from average markup is about 8 percent of sales receipts, this insignificant item may lead to a 16 to 30 percent "improvement" in results.

Finally, a reexamination of prices at the start may occasionally lead to corrections. The enterprise doing the repricing may take such corrections into account, but the customer must also modify (increase) repriced profits and the wage development index in cases when suppliers transferred such sums to it.

The primary task of administration and the enterprises during the course of the reexamination process will continue to be a realistic formulation of the base wage regulation index. More specifically, opportunities for higher personal incomes or, more precisely, wage development, of enterprises must be set on the basis of real improvements in efficiency. Consequently, the principle which permits differentiation of wage development opportunities according to efficiency is correct. It is needed, in part, to ensure that preferential wage development is not possible without a corresponding improvement in efficiency.

At the same time, correct determination of wage development indices must also help in laying the groundwork for the recognition of successful, high quality work, based on true performance.

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ENTERPRISES COPE WITH RESTRUCTURING OF PRODUCTION

Kontakta Factory Program

Budapest MAGYAR HIRLAP in Hungarian 30 Oct 80 p 7

[Article by Eva B. Mezei: "Kontakta Has Started Out Well--They Are Helping Themselves"]

[Text] After the introduction of the new regulators several enterprises came to a standstill. Not the Kontakta Parts Factory. Its results to date show that it has successfully cleared the higher hurdles, and that it was able to adapt to the changed circumstances.

Profits for the first 6 months have exceeded somewhat those attained in the identical period of last year, stated Jeno Dobai, the economic director of the Kontakta Parts Factory.

The three-plant enterprise produces primarily support [items] of the electronics industry, since it manufactures mainly parts, microprocessors, control panels, electrical installation materials, switches, and plugger foundations. Precisely because of the product composition and secondary-industry character, it primarily supplies parts to domestic enterprises manufacturing finished products. At the same time, since its capitalist exports reach 5 percent, it falls within the category of leading enterprises. Thus, as a consequence of competitive pricing, it may achieve the same profit with its domestic products as it realizes on the capitalist market.

Coping With Requirements

Since Kontakta products so far have been successfully sold at a good price, they can charge an 11 percent asset-proportionate profit. The new pricing system, however, is now much more selective of the products of the factory: it is only worth exporting those which it can manufacture profitably. The chief capitalist market for Kontakta is Algeria, the FRG, and the Netherlands. Since Common Market tariffs are quite high, and parts are purchased by wholesale-trade enterprises, great care had to be expended on reducing production costs and on technological development. Efficiency has been successfully increased by technological changes, organization, and technical modernization. In this field products become obsolete extraordinarily fast; the industries of Japan and the FRG set a rapid pace for increased requirements of electrotechnical parts. If Kontakta wishes to remain competitive on the capitalist market, it must keep pace with the products of these capitalist countries. And although it is true that domestic purchasers are more patient, but with the development of each new product for the capitalist market, domestic selection is also improved.

Price Situation

How have the prices of products shaped up in the first half year?

We have strongly felt the price fluctuations of gold, silver and palladium, answered Jeno Dobai. We utilize a significant amount of precious metal for contacts. Although the producer prices of these important raw materials increased as of January first, we got the permission of the authorities to pass these on in our consumer prices only as of the second half of the year. We have striven to offset the increase in production costs with more economic management and technical modernization. Thus, for example, we have saved 7 million forints by better utilization of transportation means and by eliminating empty runs. But our use of fuel oil was decreased and our profits also increased by our beginning domestic manufacture of numerous parts that were previously obtained through imports.

Does the Kontakta factory have enough orders?

The change of regulators projected a standstill in the domestic market, and our customers have become more careful. Because of stricter control of inventories, the TEK [Capital Equipment Marketing Enterprise] enterprises are also buying less. Domestic orders have fallen by approximately 5-10 percent, and according to our calculations to date our income is declining by 100 million forints. Our capacities are not being utilized; the falling off of orders affects nearly all of our products. Therefore we have looked for product orders that our domestic partners had previously obtained abroad.

Not only the Kontakta Parts Factory, but numerous industrial plants are affected by the annual decline in the number of workers. This year we have 4 percent fewer workers. Producer cooperative auxiliary enterprise branches are "seducing" many of our employees. In this way then it frequently happens that, when we have heavy foreign orders, our former workers in the employ of the producer cooperatives deliver at 2-3 times the price the same products that we cannot produce in time....

Where does the preparation for the enterprise's Sixth Five-Year Plan stand?

We delivered the preliminary plan to the KGM [Ministry of Metallurgical and Machine Industries] at the end of September. The planned 350 million forint investment will determine the future of the factory. We will purchase mainly machinery and equipment for the modernization of the manufacture of electromechanical and VAZ [Soviet enterprise] systems. According to our plans, this investment will be completed by 1986, but it's impact will already be felt in 2 years. With modern equipment we could increase our returns by 8 percent annually. We want to get a 10-year preferential credit from the State Development Bank. According to our plans, our returns will reach 2 billion forints by 1985 and our profit would be approximately 10-11 percent of this, or 200 million forints: double that at present. From this we could cover the repayment of the credit.

It Is Not Enough To Be Good

According to forecasts we are also counting on a growth of domestic orders, with the development of the electronics industry. In our plans capitalist exports will continue to comprise 5 percent of our total production, since we wish to push the export only of profitable products. We are now conducting discussions about factory construction in Algeria, and if this comes about, then our capitalist exports may expand significantly.

In the next plan period we regard the modernization of our product structure as indispensable; thus, for example, we are concerned with the introduction of the manufacture of energy-efficient switches and solar batteries. We have had to realize that it is not enough to manufacture good products; with exports one must follow the trend. Thus, for example, in place of the previous shiny switches the market now demands matted ones. For this, however, there are no domestic stocks for the time being; powder for molds must be imported from Sweden and the FRG.

Machine Tool Industry Works

Budapest MAGYAR HIRLAP in Hungarian 22 Oct 80 p 7

[Article by Ilona Kocsi: "A Bold Program: Problem of SZIM (Machine Tool Industry Works) Solved--They Are Rescheduling Amortizations"]

[Text] Machine tool manufacturing is classified among the most promising branches of the Hungarian machine industry. The significant developments of past years, the dynamic growth of production and export, as well as the rapidly transforming production structure demonstrate this. Still--in recent months it could more and more frequently be heard that these enterprises are struggling with economic difficulties. It was the name of the Machine Tool Industry Works that was mentioned most often.

A strange situation, at all events. My misgivings were only reinforced by my vain search, practically for weeks, for the economic director, Dr Ferenc Zalka. "He is in conference, he is not home," came the secretary's various responses.... Yet when we met, there followed another surprise: I was received by a man who seemed calm, even decidedly optimistic. As became evident, he had good reason to be.

When Conditions Change

It is true that we were in a very difficult situation, came the explanation, but this is already true only in the past tense. The State Planning Commission decided 2 months ago to agree to the re-scheduling of our development credits. That is, we got time to put things a bit in order. I feel that this decision was justified both politically and economically.

During the Fifth Five-Year Plan, at a cost of 1 billion 155 million forints, we developed to an extraordinarily great extent. Given conditions at the time, our idea was absolutely well-grounded. In the meantime the world changed and the enterprise's profits suddenly declined. We started to examine the causes. Thus light was also thrown on intra-enterprise deficiencies: fundamentally, however, we thought to discover the cause of the trouble in external factors. If regulators change at the time when credit is obtained, then it is not unwarranted if the installments are adjusted to this. They finally understood our reasoning.

Thus the situation became quite different. SZIM therefore could postpone payments. Could postpone?! Not a particularly good expression, if only for the reason that at the enterprise they are firmly convinced that this decision was necessary.

Generation Change

The enterprise therefore has undergone a real renewal in the past years. The oft-mentioned product structure change was visibly accomplished at SZIM in the form of a genuine generational change. The traditional machine tools are being replaced by digitally-controlled ones. Their ratio in the Fourth Five-Year Plan was still only 17 percent; by the end of the Fifth it will already reach 60, and in the Sixth, 80 percent. We are purchasing many licenses, and international cooperative agreements are interwoven in the background of these developments. In the foreground, however, are investments: in Kecskemet, Esztergom, and smaller modernizations in Budapest. But in the meantime, personnel is significantly decreasing. It is not that the improvements are making the labor force superfluous. The reason for the decrease is partly fluctuation, and on the other hand, partly to be found in external, not expressly economic, factors. At the beginning of January, 1976, they detached the Gyor target-machine factory from SZIM, then later the factory unit operating at Nagymaros had to close down because of power plant construction there. Under the joint impact of the two things personnel was reduced by approximately 1,100. (The enterprise today has 6,200 workers.) For this reason, too, investments had to be continued. Chiefly of course because in foreign markets today the only machine tool manufacturer who can stay in the competition is the one who can also produce digitally-controlled machines. Not to improve would have meant the market losses. Just when they were beginning to get the hang of it--or, as the economic director put it, when they were getting into the "Federal league"--when they were selling in more and more capitalist countries.

The consequence of the more than 1 billion forint improvement is the present tight economic situation. In the end, SZIM got lucky: it got an extension. (This observation again seems to annoy the enterprise expert. It is not true--went the reasoning--that the regulators affect active and passive enterprises equally.) At least not at the present moment. Therefore a temporary different [illegible] of treatment is justified.

But we are repaying the credit, along with interest, emphasized the economic director. In return for this in the Sixth Five-Year Plan we are undertaking a bold economic program. Our goal is a doubling in several areas: this is true for production value, as well as for capitalist and socialist exports. In 1985 we are going to export NC machine tools for 35 million dollars; capitalist imports that are indispensable to this will not make up even one-third of this amount. In the machine industry, this is considered a good result. And if our production grows this energetically--by 20 percent yearly--then our profits will also be considerably greater: at the end of the Sixth Five-Year Plan they may exceed 500 million forints. (As a comparison: they may now exceed 50 million at most.) Fixed costs--overhead, wages--will not increase in direct proportion to the expansion of production, thus further production will also raise profits almost "automatically."

Over the Growing Pains

When I unbelievingly ask whether they will have buyers, the economic director pulls out a list. It comprises those enterprises--mostly domestic ones--whose demand they cannot meet either now or in the future. True, it is mainly Hungarian enterprises that are among those waiting. Incentives and credit are forcing SZIM to export to such an extent that domestic firms can get machine tools only if any are left over. When for years they do not get them, when their patience is exhausted, they import, that is all. From capitalist firms, for hard currency. Appalling. The economic director is sympathetic. Expansion of capitalist exports figures among the conditions for credits. If they do not accomplish this, they will pay through the nose. Thus they prefer to export. (Of course, if import-generation were of equal value to exports, the picture would be different.)

In a cooperative agreement signed with the West German firm of Gildemeister, for example, SZIM undertook to deliver 72 basic machines to the FRG in 1978. (In addition, the West Germans were to import the controls from Japan.) The enterprise has not yet been able to meet this obligation: production got underway sluggishly; it did not reach the anticipated output. Last year, on the other hand, even if at the cost of great exertions, they exported 60 machines. But this year they will "easily" fulfill the agreement for 100 units, and they have already undertaken the delivery of 200 machines for 1981. That is: have gotten over the initial growing pains, exports have picked up nicely. About meeting domestic demands, however, we still cannot say anything.... As far as profitability is concerned, initiation had to be paid here also. Last year SZIM sold the 60 machines at a loss, and even this year's price increases can only alleviate the situation. Next year's sale of 200 units, however, will already be profitable.

Since the configuration of export prices also has an affect on the domestic prices of the enterprise, and because exports have an ever larger share of production, it also had to alter the relation existing with the Technoimpex foreign trade enterprise. They replaced the earlier commission relation with a partnership contract, in which they established an upper and lower price limit for sales. If the foreign trade enterprise realizes a price between the two, it receives 20 percent of the profit, with the rest being due to the manufacturer. If the price goes over the upper limit, then they divide the surplus equally. In the third variation--if the price is below the lower limit--the foreign trader takes a 20 percent share of the loss.

They have regulated other areas of cooperation as well: if the manufacturer does not deliver on time, it pays compensation to Technoimpex. If on the other hand the foreign traders do not sell in a suitable time, or the exchange-value is not collected within 120 days, the foreign trader pays the manufacturer. That is: it is possible to work unpunctually only at one's own expense. And no doubt everyone considers this carefully....

At the Machine Tool Industry Works therefore life has returned to the old routine. The strain of proof has for this once replaced the excitement of investments. And to work this off in results will not be an easy task.

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CHEMICAL WORKS DIRECTOR ADVOCATES RISK TAKING

Budapest NEPSZABADSAG in Hungarian 23 Nov 80 p 5

[Interview with Ferenc Szerb, director of VEGYEPSZER by Istvan Orosz: "Those Who Take No Risks Are Risking More"]

> [Text] Because they expect that operating conditions both domestically and on the international level will not be easier in the coming years, and in fact will change more rapidly and with less predictability, forward thinking, venturesome, experienced enterprise leaders declare that those who take no risks are risking more. Thus, those who do not intend to fall behind must venture more boldly and accept risks.
>
> Why is the readiness to be venturesome necessary? What is necessary for rapid and flexible adaptation? What kind of a response can one of the implementors of large Hungarian chemical industry investments, the Chemical Plant Construction and Outfitting Enterprise, provide to the economic situation's new challenge? We discussed these questions with Ferenc Szerb, the director of an enterprise which employs nearly 8,000 workers.

[Question] At the beginning of our discussion you stated that as far as your enterprise was concerned, the year was too successful. How are we to understand this?

[Answer] At the beginning of the year, on the basis of the new production prices, we were expecting an approximately 50 percent decrease in profits, compared to last year. Although, based on later, more exactly developed prices, this estimate was later raised, preliminary data indicate that despite the regulation, which was thought to be more strict, profits hardly decreased, but will be about as much as they were in 1979.

[Question] This should be a cause for rejoicing. Why is it causing you a headache?

[Answer] It is confusing our economic perspective. As of yet, it cannot be certainly determined from the data how much of the much greater than expected profit is due to increasing efficiency, and how much is attributable to causes beyond our control, to internal inconsistencies of the new regulation system which are not yet sufficiently known. I will add that we really tried hard, and the year's rapid development of profitable exports and reduced costs have certainly brought in much to the enterprise "kitchen". But our performance was not better to the extent that profits exceeded the estimates. Currently we are thoroughly analyzing the interrelationships between expenditures and results, and the effects of expenses, price changes and other factors. Without this, we are like a ship on the ocean without a compass, not knowing in what direction to go, how much monetary resources we can expect next year, and what it will be possible for us to do or not do.

Since we are not the only ones in this situation, we are wondering what conclusions the directive organs will draw from the greater than expected profits. I am afraid--and because of past experiences, validly, I believe--that the surplus profits will continue to be taken away, whether they are derived from successful operation or not, because through the subsequent "correction", incomes divergent from the planned amounts have so far been forcefully equlaized. But then, where is the opportunity for differentiated enterprise development?

Thus we cannot be unequivocally happy about the year's economic accomplishments. The uncertainty is even worse because we are at the beginning of a new five-year plan, when a contracting, building and installation enterprise is finding itself face to face with a different situation than existed 5-6 years before.

[Question] The current situation, as far as the proportion of investments is concerned, truly differs from that which existed during the previous five-year plan.

[Answer] We used to prepare the enterprise mid range plan by examining what our capacities could handle, and we could choose our work. Now our concern is whether we will have enough work, and whether we can utilize our enterprise capacities continuously. The buyer used to "come to the house", but now we must seek out the buyer, explore new possibilities and secure our own orders. In addition, we must also expect increasing competition, which was rarely experienced in the domestic sphere previously. The first signs of this have already been manifested.

For example, it has happened that when we tried to contract for the delivery of valuable equipment with one of the chemical combines, we found that our competitor tried to secure the order by seeking the influence of their high level connections. Our recommendation, however, was our previous performance for the combine. This carried more weight in their decision and resulted in Vegyepszer's victory in the end.

It has also happened that a competing enterprise offered to voluntarily forego the legal bonuses which are customary for emphasized investments, if it were contracted to perform the technological outfitting of a large new chemical plant under construction. We, however, made no such concessions. Still we were selected because Vegyepszer can also perform the very important side tasks related to technological outfitting, for which the competing enterprise is not equipped. This case also exemplifies the fact that in investments which run into the billions, the assurance of implementation and continuity is much more important to the builder than the relatively small price concession, no matter under what guise given.

[Question] Vegyepszer makes no price concessions at all to customers?

[Answer] It does, but in an entirely different form. Recently, for example, we made a prime contracting agreement with Chinoin to construct a plant protection agent factory under which Vegyepszer is required to provide a 6 percent price concession for every month we are late, if we do not complete the project in time. There are similar strict monetary sanctions if we exceed the 700 million forint investment expense estimate. This is the first time that we have obligated ourselves under such strict conditions since the measure regulating prime contracting came into effect last year. We assumed full responsibility for the timeliness of the investment, and for its producing the technical-economic results which the agreement specifies.

[Question] Obviously, the greater risk and responsibility are being accepted with the expectations of greater profit.

[Answer] In the contract with the investor, we agreed to a 12 percent prime contracting fee. This amounts to a considerable sum--if we are successful. At the same time, we had to weigh the magnitude of the possible loss. We formed a partnership to share the risks and profits with our old, reliable partner, the Chemical Plant Planning Enterprise, since without adequate planning, any venture like this could end in a fiasco. Vegyterv undertook unusual legal guarantees to deliver the plans punctually, and will share in the prime contracting profit proportionately. The knowledge that this undertaking is in reality a professional test wherein success is also a moral victory is also motivating us in the combined effort.

[Question] This is really a rare and daring initiative in Hungarian practice.

[Answer] It is not really a matter of daring but rather one of interest and of market conditions. While a contractor can make a good living in his habitual way, with average performance and average responsibility, and can make a profit and generate wages, why should he make the effort for extra work which is accompanied by so many pitfalls? I have already mentioned how these circumstances influenced our earlier decisions. I will only add here that under the changed circumstances, accepting greater risks is practically a matter of economic necessity or of existence for us. And why can we be daring? Not the least because, as the construction enterprise for the ministry, we are in the fortunate position of having deliberately prepared ourselves years ago for the implementation of the branch's large, complex investments. We have already successfully implemented several of these. Thus, I believe that we are unbeatable in this type of venture in domestic competition.

[Question] What is the secret of your being unbeatable?

[Answer] Vegyepszer has its own general planning and development specialist cadre, its own construction and installation capabilities, and since 1972, even its own machinery factory. Thus, in the investments being implemented in prime contracting, the enterprise itself can perform nearly all the tasks from laying the foundation to the final installation work. For this reason, the enterprise is in a better position to overcome the difficulties arising from loose cooperation discipline and the backwardness of the background industries which generally greatly disrupt the efficient implementation of investments. You can imagine what unheard of advantage and security it is for a construction enterprise not to be dependent upon the arbitrariness of a dozen other contractors or machinery transporters, not to have to constantly stop because, let us say, a cooperating firm fails to erect scaffolding in the installation ready plant, does not turn the workspace over in time, etc. In such circumstances, there is, of course, no way to constantly shift responsibility, to engage in the time consuming and expensive litigation which is customary among cooperating contractors, because the prime contracting responsibility of Vegyepszer is indivisible. Thus, Vegyepszer must itself resolve the thousands of difficulties and obstacles which arise during the implementation of an investment. Prime contracting then is not a matter of trial or luck, but a profession which must be learned, and its technical, organizational and monetary conditions must be created.

[Question] Unfortunately, by the time you achieved this, construction opportunities have become very limited, and there is less money for investments.

[Answer] Prime contracting is an outstanding business primarily for the investor, and will remain so because the investor is assured that through it his competitive new products can reach the market more rapidly. We intend to take advantage of the opportunities even if these become smaller than our capabilities. We also have the capability of converting to other work if the changing circumstances so constrain us.

[Question] May we hear more about this?

[Answer] Because we expected the shortage of funds among enterprises, this year we have already converted a fifth of Vegyepszer's construction capacities to chemical industry retooling and maintenance work, which had heretofore been often neglected. On the basis of multi-year agreements, we formed our own construction directorate in Chinoin and in the Pet Nitrogen Works. We are also negotiating for such work with the directorate of the Kobanya Pharmaceutical Factory. Through these, we have managed to get a small step ahead of the larger reductions in construction investments which are sure to occur next year. We have undertaken additional contractual responsibilities for 1981 for technological installation at the Paks Nuclear Power Plant construction, where we are already working in full force. We have undertaken, or rather, are undertaking technological outfitting work at other large chemical industry or energetics investments and retoolings to be started in the future. In partnership with the Electric Power Plant Investment Enterprise [ERBE], we are endeavoring to gain the contract for the implementation, or rather, the construction of the equipment for the environmental protection procedures developed and patented by ERBE [illegible]. But we also intend to undertake the export of such modern equipment.

[Question] Is only the shrinking of the domestic market constraining you to export orientation, or is there another reason?

[Answer] Even an enterprise such as Vegyepszer, which is fundamentally equipped for the implementation of specialized domestic investments cannot dispense with a multiple market policy. With this realization, we have made more and more agreements with capitalist corporations in recent years, and are still making newer ones, for the completion of technological outfitting work of investments which they are implementing. This year, more than 700 of our outstanding specialists who are knowledgeable in more than one field are working on investments in the FRG and Libya, with results so well established that Vegyepszer is granting legal guarantees for timely completion of the projects.

The other half of our export is to socialist countries. Within the framework of a large scale cooperation, we are delivering measuring stations to oil pipelines being constructed in the Soviet Union. We are performing construction-technical outfitting projects in the GDR under export prime contracting.

[Question] How much weight do exports carry in your enterprise production?

[Answer] While 5 years ago, Vegyepszer's exports were insignificant, today they comprise about 30 percent of enterprise production. Thus, the foreign market has become important. If we did not have it, we would have to produce 900 million more forints domestically, which is unimaginable under current circumstances. Half of the enterprise profits for the first three-quarters of the year have been derived from exports, although the exports comprise only one-third of the total production value. Greater motivation and interest in exports than this is hardly possible.

[Question] To what extent do the mid level leadership and the total enterprise collective of Vegyepszer perceive the current extensive problems and changes?

[Answer] This happens to be one of the most significant factors in ventures, in taking risks and in flexible adaptation. We planned to achieve this by giving each section chief his own authority to make decisions with maximum independence, to have him share in enterprise problems and responsibilities. Our chief method of practical implementation is independent accounting by construction managers. This is augmented by appropriate guidance and by the democratic methods of leadership. The construction management hires the workers, manages the wages, materials and supplies. It has its own production plan and accomplishment goals. If, for example, it meets its income plan from quarter to quarter, it receives a predetermined premium; if it does not, then it must suffer a proportionate share of the enterprise credit interest losses, which also reduces the profit share of the workers involved.

The method of individual accounting has been in practice for 4 years now. I can confidently state that since its inception, the section chiefs have come to understand theproblems of enterprise management significantly better, and the majority of them are in favor of the greater self reliance. This in no small measure is responsible for the fact that enterprise income has become more steady, and that we have no difficulties with pay. Recently, we have even divided up the so called annual 300 million forint general enterprise expenses into independent accounting units. Until now, the construction chief was under the impression that while he brings men from Zala to the capital, because the enterprise pays the busing costs, it is not concern. But since he has become aware that this expense burdens his accounts, he most assuredly examines whether so many men are necessary, whether it is necessary to bring them from so far and to provide them with lodging, etc. In this way it was possible to eliminate quite a number of bus routes to date. It has become apparent that much of the 300 million could be saved.

[Question] Does the self-reliance of certain sections extend to undertaking ventures also?

[Answer] Yes, insofar as any plant or construction foreman can participate in negotiations, can assist in the exploration of market needs and may bring in orders or "customers". However, only the central enterprise organization of

Vegyepszer may make decisions on conditions and acceptance of an undertaking. The concluding of business agreements belongs to the sphere of the enterprise jury, but those who will probably perform the particular work are always included in the negotiations. This is one of our very strict rules. We know from our own experiences how great losses and what serious monetary consequences accompany irresponsible undertakings of what is beyond enterprise potentialities. Vegyepszer's legal predecessor went bankrupt in this way, and it took us several years to overcome these problems.

[Question] Only those who have money can take risks. Is Vegyepszer in debt beyond its means, as several other previously dynamically growing enterprises are? Does it have sufficient resources and credit for revamping its activity structure?

[Answer] Fortunately we have no unusual problems in this respect. Through the years, we were able to repay our loans punctually. The bank considers Vegyepszer to be a sound firm and grants credit, as long as we furnish the appropriate proposals. Currently, for example, we are submitting a request for credit for an investment serving to increase import supplementation, and we are also requesting credit for the development of the so-called background industry. In 1978, we requested and received development fund supplementing credit from the State Development Bank to enable us, through license purchases, to begin the prime contracting of the construction of specialized water softening plants. Since then, we have built the first large-scale, large capacity water softening plant at Paks. Thus we have a so-called reference plant in actual operation which we can show to interested foreign concerns.

We also intend to undertake the export of prime contracting of turnkey plants and pharmaceutical factories, because the need for such in developing countries is apparent. In cooperation with Chinoin and the Kobanya Pharmaceutical Factory, we have already prepared the preliminary proposals necessary for export prime contracting of 3 pharmaceuticals manufacturing technologies. We are now ready to market these and are now in a position to prepare business negotiations and the subsequent concrete agreements.

Our capitalist exports this year will increase by about 50 percent, but this increase will not be easy to repeat in 1981. Thus we are increasing our market research. We are submitting quite a number of proposals for the delivery of complete chemical industry installations to the firms that have sought us out, while accepting the risks of possible losses which would result from changes in the exchange rates. We contend that those who take no risks today and pass up the available opportunities are in reality taking the greater risk.

[Question] All things considered, how in the final analysis can Vegyepszer's strategy and tactics during the new five-year plan be formulated?

[Answer] In some areas we are retreating, while in others we are pressing forward. While, for example, our construction activities, with the exception of a few areas stagnate, or perhaps redevelop slightly, we intend to develop our chemical industry machinery manufacturing, domestic and foreign outfitting outputs more rapidly than the enterprise average. Thus, overall, we can expect a 4 to 5 percent annual production increase. This, of course, is considerably less than the previous 10 to 12 percent, but is still evidence that Vegyepszer is capable of developing, of maintaining its monetary stability, of employing its workers efficiently and of gathering strength for the new tasks of the awaited economic upturn even under more difficult market conditions.

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MINISTER SURVEYS CURRENT PROBLEMS OF FODDER MANAGEMENT

Budapest ALLATTENYESZTES in Hungarian No 4, 1980 pp 289-296

[Article by Jeno Vancsa, deputy minister of Agriculture and Food Industry: "Timely Questions in our Fodder Management"*]

[Text] In today's session of the conference we will review the situation of fodder management, which is one of the large and multi-faceted areas of agricultural production. We had a similar discussion of this topic in 1977 within the framework of the meetings on scientific animal husbandry. The goal of our conference is to take stock of the results achieved in the time since then, and to define the tasks we must still solve in the interest of our progress in this area of animal husbandry.

Even in the past, development of the present level of our livestock husbandry was made possible by the continuous growth of the fodder base which insures production. Our slaughter animal and animal product production rose dynamically in recent years as shown by the following table:

Name	Unit of measure	1976	1979	Planned for 1980
Slaughter cattle	1,000 tons	340	345	321
Slaughter hogs	1,000 tons	954	1,150	1,170
Slaughter poultry	1,000 tons	375	442	457
Other	1,000 tons	105.3	124	133
Total		1,774.3	2,061	2,081
Milk	million liters	1,940	2,340	2,425
Eggs	million pieces	4,000	4,600	4,400
Wool	1,000 tons	8.5	11.7	12.3

Our animal husbandry grew faster than the rate planned for the Fifth Five-Year Plan. The average yearly growth of production value approached 4.5 percent in 1965 to over 2 million tons by the end of last year. With this production level we significantly exceed the per capita meat production of the CEMA countries, and we are among the leaders even in world-wide respects (Hungary 147 kg, USA 117 kg, Denmark 215 kg, Holland 125 kg).

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* Lecture delivered on 28 March 1980 at the scientific production conference.

In cattle raising, moderate growth was noted in the number of cows and in slaughter cattle production. However, our milk production increased by 32 percent during the planning cycle's years thus far; this has never happened before. Milk production per cow surpassed 3,300 kg, and by the end of this year this will reach 3,400 kg.

High quality for slaughter hog production has become standardized in our hog raising branch. Meat yield per sow has increased by about 15 percent, and efficiency has improved.

In 1979 the poultry raising branch produced 25 percent more poultry meat and 15 percent more eggs than at the beginning of the plan period. We are first in the world for per capita egg production with 445 eggs per year, compared to Holland's 384 and Czechoslovakia's 309.

Sheep raising shows the most dynamic growth. During the plan period the number of sheep increased by 1 million; wool production rose by 40 percent, slaughter sheep production by 34 percent.

With such dynamic growth of production we were, and are, able to insure the population's balanced supply, and we are fulfilling our export tasks. The gross production value of livestock raising amounts to 49 percent of agriculture's total and food industrial export. Within this, this branch supplies 54 to 55 percent of the nonruble-accounted export. Livestock raising is export-centered, and we sell half of our slaughter cattle and slaughter hog production and more than two-thirds of our poultry and sheep products on the international market every year.

I. The Situation of Our Fodder Management Today

Along with the growth of production the internal structure of livestock raising also continued to change, as shown in the following table:

The shares of individual branches in [total] production:

Hogs	36.4 percent
Poultry	24.9 percent
Cattle	30.5 percent
Sheep	4.2 percent
Others	4.0 percent

The production structure which has developed is a traditional one, but it also follows from the country's given natural resources. Our ecological conditions favor most the production of grains, thus grain products such as wheat and corn are the surest fodder base for our livestock raising.

The hog and poultry branches provide 83 percent of our slaughter animal production. Animals which eat grain fodder provide 61 to 62 percent of all the products of our livestock raising. This ratio is practically unique in worldwide respects. While in this country the share of the hog and poultry branches in slaughter animal production is 83 percent, it is only 42 percent in France, and 51 percent in the USA.

The share of the individual sectors in livestock production also illustrate well the multifaceted problems and different tasks found in production and fodder management.

The share of slaughter animal production by large agricultural operations on the average over the last few years has been about 55 percent. The balance is produced by the household plots and auxiliary operations. Table 1 also shows that within the grain fodder consuming branches the share of small producers exceeds that of the large operations.

Table 1

Distribution of the Production of Slaughter Animals and Animal Products by Sector in 1979

	Total (1)	Distribution (2), percent		
		State sector (3)	Cooperative and joint farms (4)	Household plots and other small operations (5)
Slaughter animal production (6)				
Slaughter cattle 1,000 t (7)	345.0	14.3	66.4	19.3
Slaughter hogs 1,000 t (8)	1,150.0	18.6	26.1	55.3
Slaughter poultry 1,000 t (9)	442.0	10.2	51.8	38.0
Other slaughter animals 1,000 t (10)	123.7	18.8	30.3	50.9
Total (1)	2,060.7	16.1	38.6	45.3
Animal product production (11)				
Milk (12) million liters (16)	2,340	19.2	47.6	33.2
Eggs (13) million pcs (17)	4,600	11.7	23.0	65.3
Wool (14) 1,000 t (18)	11.7	14.5	63.2	22.3

[English language summary copied from text] Sectorial distribution of production of animal products and slaughter animals

total (1); percentual distribution (2); state sector (3); co-operative farms (4); small-scale farms (5); production of slaughter animals (6); slaughter cattle, 1000 tonns (7); slaughter pig (8); slaughter poultry (9); other slaughter animals (10); production of animal products (11); milk (12); eggs (13); wool (14); million liters (16); million pcs (17); 1000 tonns [sic] (18).

Composition of the fodder consumed also changed to conform to the production of the individual branches. The ratio of branches requiring fodder with high nutritive and protein contents continued to increase.

Table 2

Development of the Composition of Fodder Consumption

Available fodder (1)		Consumption (2)				
Name (3)	Amount (4)	Ruminants (5)	Hogs (6)	Poultry (7)	Other (8)	Total (9)
Grass hay (10)	2,200	1,829	--	--	330	2,159
Alfalfa hay (11)	2,159	1,510	220	150	120	2,000
Other papilionaceous hay (12)	300	250	--	--	50	300
Grain fodders, including import (13)	10,890	2,420	5,730	2,250	490	10,890
Corn silage (14)	5,100	5,100	--	--	--	5,100
Secondary products (15)	7,500	2,600	--	--	100	2,700

[English language summary copied from text] Composition of feed consumption in 100 tons.

available feeds (1); consumption (2); naming (3); amount (4); ruminants (5); pig (6); poultry (7); other (8); total (9); grass hay (10); alfalfa hay (11); other papilionaceous hay (12); compound feeds including import (13); maize silage (14); by-products (15). [end]

The development and present situation of fodder production and consumption is illustrated by the data shown in Table 2.

Each year we use about 23 million tons of fodder. The harvesting, storage, quality maintenance, and wise feeding of this huge amount of produce even alone indicate the extreme complexity of our tasks. Not to mention that the livestock which consumes this fodder is located on over 2 million lots and yards.

The 1979 data I summarized in Table 3 well illustrate the development of grain fodder consumption which amounts to nearly 11 million tons, and within this the use of imported proteins.

Table 3

Development of the Use of Grain Fodders and Imported Proteins

Name (1)	Slaughter animal production (2)		Grain fodder consumption (3)		Imported protein consumption (4)	
	1,000 tons (5)	percent	1,000 tons (5)	percent	1,000 tons (5)	percent
Poultry (6)	442	21.5	2,250	20.7	340	48.6
Hogs (7)	1,150	55.8	5,730	52.6	310	44.3
Ruminants (8)	390	18.9	2,420	22.2	40	5.7
Other (9)	79	3.8	490	4.5	10	1.4
Total (10)	2,061	100.0	10,890	100.0	700	100.0

[English language summary copied from text] Consumption of compound feeds and import proteins

naming (1); slaughter animal production (2); compound feed consumption (3); consumption of imported proteins (4); 1000 tonns (5); poultry (6); pig (7); ruminants (8); others (9); total (10). [end]

The composition of livestock by type, and the production structure determine the composition and proportions of fodder use. The fact that 75 percent of the total starch value consumed by the livestock, and 69 percent of the digestible raw protein derive from grain fodder, can be traced back primarily to this. Of the grain fodder used for livestock feed, 73 percent is used by the poultry and hog branches, 21 percent by the cattle and sheep branches. But at the same time 86 percent of the fibrous fodders is consumed by animals with complex stomachs. Total protein fodder consumed is characterized by the following [tabulation]:

Protein Consumption

	1975	1978	1980
Total digested protein in animal raising	1,500,000 t	1,660,000 t	1,700,000 t
of this: in grain fodder	1,135,000 t	1,250,000 5	1,326,000 t
in imported protein	286,000 t	390,000 5	360,000 t
import percentage of total protein	19 percent	23.6 percent	21 percent

Poultry raising used up 49 percent of the imported protein, hog raising used 44 percent, and the other animal raising branches used only 7 percent. Compared to the earlier situation, this represents a significant step forward. In 1978 imports provided nearly 24 percent of all protein consumed, while this year this ratio is [only] 21 percent.

In the following I wish to give a brief summary of the situation of implementing the main fodder management tasks defined at the 1977 conference.

1. First of all, we endeavored to improve our work in the area of grain fodder management, especially in the areas of specific fodder consumption and rational utilization of the imported proteins. Our achievements are significant. In the time period under study, we increased our production of animal products from 2,361,000 tons to 2,831,000 tons expressed in terms of equivalent meat value, while grain fodder consumption increased from 9,596,000 tons to 10,920,000 tons. This means that while we increased total production by 20 percent, grain fodder consumption increased by [only] 13.8 percent.

Grain fodder used to produce one kg equivalent meat value decreased from 4.1 kg to 3.8 kg. Specific fodder consumption improved by 10 to 12 percent in milk production, and by 3 to 4 percent in slaughter hog production.

We have achieved significant results in the frugal consumption of protein fodders. While the production of animal products increased in 1979, our protein fodder import decreased by 80,000 tons.

2. Sunflower production, which was doubled, successfully contributed to increasing our domestic protein base. In recent years we achieved 30 percent increase in producing industrial protein fodders of animal origin, 37 percent increase in vegetable oil industrial fodders, and 40 percent increase in the production of powdered milk fodder. Carbamide consumption increased to 17,000 tons, and is gradually gaining ground in the feeding of cattle and sheep.

3. We have achieved a favorable change in the type composition of corn, our most important grain fodder. We have greatly increased the planting areas of early and medium-early hybrids, and eliminated production of those which belong in the ripening group with numbers higher than 500 FAO.

At the present time, 53 to 54 percent of the total corn planting area is used for medium and short ripening hybrids, and only 44 to 45 percent is used for types listed under the 400 to 500 FAO ripening group. By doing this corn quality has significantly improved, and on the overwhelming majority of the area we have succeeded in insuring biologically complete ripening. We consider it favorable that in recent years over 100 agricultural operations were equipped for the energy-efficient storage of damp corn without preservatives. Thus the amount of stored corn surpasses 200,000 tons. The spreading and application of the system is also assisted by the trade shows and conferences organized in the Beke [Peace] producer cooperative in Hajdunanas, and the Voros Csillag [Red Star] cooperative of Derecske.

4. A change of outlook has occurred also in judging the management of fibrous and bulk fodders by the operations. By improving the management of grass [production], we have increased grass production by 30 percent an hectare. While this yield is still considered low, it represents 18 to 20 quintals of hay equivalent value per hectare.

The large operations have achieved resounding success in the production of silage corn. The amount of nutritive material harvested in 1979 exceeded the level of the plan period's first year by 50 percent. The significant increase in the energy content of silages had a favorable effect on decreasing the grain fodder consumption of ruminants. The last 3 years have also brought a favorable change in using up the agricultural byproducts. Last year, the 1 million ton consumption of 1975 was tripled. We have also achieved progress in using byproducts of industrial origin.

5. We can report modest progress in the industrial production of blended grain feeds. About 62 percent (6.8 million tons) of the total grain fodder consumed for animal raising is blended feed. The agricultural operations and animal raising systems sell about 30 percent of the blended feed produced.

6. We were successful in increasing industrial support of fodder management, especially the machinery and equipment supply, even though in this area in insuring the necessary conditions we still fall significantly short of the demands. In the last three years the number of machines suitable for the modern harvesting of fibrous and bulk fodders has doubled. The inventory of trailers which pick up the windrow, thereby increasing productivity, has also doubled. We have satisfied the demands for grass mowers for tractors, which contributed to shortening the mowing time. In the cases of a few machines a surplus market has developed; [for

example] today there are over 400 selfpropelled harvesting machines and a significant number of grass mowers for tractors available in commerce to the agricultural operations.

II. Future Tasks in our Fodder Management

When determining the tasks of fodder management we must start out from the point that the tasks of animal raising will continue to increase this year, and also during the Sixth Five-Year Plan. Thus in 1980 we will have to produce about 2.1 million tons of slaughter animals, over 2.4 billion liters of milk, 4.4 billion eggs and 12,000 tons of wool.

A significant portion of the animals we raise are exported. The world market appreciates our products. The demands are higher than ever before. How well we will be able to fulfill all these, is the key question of our progress.

Animal raising requires an extremely high level of material consumption. Beyond the management of fodder, which is the main topic of today's conference, its energy consumption is also quite significant, and last but not least, its demand for equipment is high.

Production's efficiency depends decisively on how well we can solve the utilization of materials more rationally, and economically.

We must satisfy the requirements which are defined as

-- improving the quality,

-- implementing the economical production of products,

-- optimum exploitation of the capacities,

-- insuring the conditions for production.

1. In our production of animal products we will continue to have to count on the present production structure, therefore the grain fodder consuming branches will be the definitive ones. The conditions do exist for satisfying the grain fodder requirements of the hog and poultry branches. At the same time, in addition to satisfying the domestic needs, the demands of increasing exports will also increase on our grain production. Thus it is also necessary in the interest of economical production, that grain fodder use be significantly more moderated than the growth rate of animal products. We must further improve the specific indices of consumption. It is most urgent to create production discipline in those operations which are lagging in this area.

Frugality with industrial energy, as well as preserving the quality of products already produced, make it urgent to expand and standardize the methods of damp storage of kernel corn in all those operations where local consumption can be insured. We will have to create the comprehensive technical and technological conditions for all these.

Decreasing these losses which occur in the drying of grain fodders, and the introduction of more careful drying methods are important tasks for us. All this means that grain production will continue to be the basic fodder base for our animal raising. First of all, we must further increase the production of corn and wheat. Therefore it is extremely important to increase the planting area and corn yields. We will have to lay down the foundations for this in the next few weeks.

We must also set new bases for selling of grain fodders. Unnecessary sales of products must be eliminated, the conditions for which we will have to insure at the enterprise and branch levels.

2. An optimum supply of protein fodders is the other important condition for increasing meat production. The import volumes required for this can not be increased further. We will have to provide the additional protein needed to increase production from domestic sources. To do this it will be necessary to fully exploit the domestic resources of animal protein, fully utilize the opportunities presented by increasing the production of oil bearing plants, and increase the production of plants which can be used for new protein sources.

We will have to pay more attention than we did in the past to introducing and spreading the use of the concentrated proteins in blended feeds based on synthetic amino-acid supplements.

Fodder research should promote the discovery of yield-increasing antibiotics and other fodder supplements already successfully used abroad, and their actual use as soon as possible.

3. In fodder management we continue to consider it a specific goal to satisfy 75 to 80 percent of the cattle stock's nutritional needs by using fibrous and bulk fodders, and byproducts. Within the livestock inventory this ratio should exceed 50 percent in intensive milk production, 70 percent in dual use, and 90 percent in meat production.

The most important task in satisfying the bulk fodder needs of ruminants is to produce about 6 million tons of corn silage with high dry material content. We will have to insure the modern harvesting and storage of this. We consider it especially important to build storage spaces with rigid exteriors, since in the major operations the constructed silo space hardly reaches 30 percent. Nearly one-fourth of the silo fodders is wasted because of this. By creating these conditions we can make further progress in increasing the solid matter content, and we can approach the 40 percent figure which is considered optimum.

Grass management is another main area of the bulk fodder base. Here we must achieve progress in increasing the grass yields, making more use of chemical fertilizers, and we must make the care and renewal of grass a continuous process. Harvesting must be more organized and made more efficient. Comprehensive technical and technological conditions must be created for grass utilization.

In the future also we wish to base fulfillment of the protein requirements of ruminants decisively on alfalfa. Efficiency per unit area must be increased in alfalfa production, and we must achieve that all of the protein produced be used to good advantage.

In the utilization of byproducts we must continue along the road upon which we have set out. We consider a consumption of 4 million tons achievable, but one of the conditions for this is that the factors obstructing and hindering faster progress be eliminated, especially in the area of technical supplies.

We must also seek new ways and solutions to achieve the designated goal in increasing the utilization of NPN materials [nonprotein nitrogen]. We must continue improving the dependability of [their] utilization. This means that new, inexpensive base materials must be found to better interest the operating units. New initiatives, such as for example the "bentocarb" preparation, must receive our support and should be more broadly disseminated.

4. In order to increase the efficiency of fodder management we must further improve industrial production of [blended] feeds. In addition to increasing the production volume, insuring quality is a basic requirement. However, in order to do this we will also have to create order in the quality of feed components. First of all we will have to insure adequate quality of the raw materials like corn and wheat which make up the largest volumes. Adequate nutritious values must be insured not only for the fodder supplies of large operations, but for the fodders of the household plots and auxiliary farms. We consider it a good thing that recently the individual production systems have been supplying their partners with grain fodder blends adapted to the raising circumstances of the various operations.

5. Rational fodder production and utilization which conforms to current requirements cannot be imagined without modern machinery and technical equipment. In recent years we have made much progress in this area, but the number of high performance and quality control machines is still too small. It is particularly important to expand the selfpropelled machinery park for harvesting fibrous and bulk fodders.

The rotating mowers and swath cutters manufactured in this country are the right equipment for harvesting hay. In the near future, industry will begin producing the stem-shredder scythes, and as a result of this it will be possible to increase the quality of the harvest, and to cut down on losses. In recent years including this year we sold about 5,000 fibrous fodder harvesting machines. We must also achieve progress in purchasing machinery which make it possible to harvest the entire corn plant. The number of the so-called large baling machines must be further increased. Cooperative manufacture of modern variations of the windrow handling machines is in progress. With these machines it will be possible to significantly increase the content value of fodders.

The number and capacity of loading, transporting and feed proportioning machines must be further increased.

We are aware of the fact that the tasks of technological development are significant, yet I would like to underline that the sphere of technical conditions developed in recent years is suitable for solving the above mentioned development tasks.

6. When we define our tasks, we must assign great importance to the human factors. Improving the efficiency of fodder management will be decided basically in the producer operations. Therefore first of all the tasks of production, of enterprise and work organization must be defined as they adapt to the local circumstances, and the workers of the operations must be mobilized to achieve these goals. We can make progress only if every operation analyzes its own situation and the results it has achieved, points out operational shortcomings, recognizes their opportunities and acts in this spirit. In accordance with this, the tasks will have to be developed differently in each operation, and the available equipment will have to be used in the most expeditious manner. The interests of the workers of these operations, their financial and moral appreciation will also have to be developed in this direction.

7. There are also many things to be done to rapidly and broadly disseminate the available scientific results. This is why we consider it very important to strengthen and improve the relationship between science and current practices. We can also find several useful examples in the area of fodder management. Thus, for example, we consider the feeding system worked out by the Martonvasar Research Institute and the Animal Husbandry Research Institute which fully utilizes cornstalks to be a significant achievement. The process of making meat paste from slaughterhouse byproducts, which saves energy and preserves nutritional value was worked out by the Keszthely University and spread rapidly in practice. The so-called intensive milk producing feeding system worked out by the Animal Husbandry Research Institute is also spreading fast. We consider the development and dissemination of AGROKOMPLEX's protein-saving fodder recipe system to be a significant achievement.

Finally I would like to close my lecture by saying that a large number of professionals responsible for fodder management and for animal husbandry are participating in this conference.

I am convinced that very much depends on us, who are here in this room, to increase the efficiency of fodder management. If we take advantage of our opportunities, I believe that we will succeed in increasing the competitiveness of raising animals, and in producing economical products.

I ask all of you to do everything in your own areas to help us reach our goals.

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AGRICULTURAL PRODUCTION SYSTEMS REPORT CONDITIONS OF WHEAT SOWING

KITE Sowing Results

Budapest MAGYAR MEZOGAZDASAG in Hungarian Vol 35 No 46, 12 Nov 80 p 4

[Article by Janos Szedlak, adviser]

[Text] A total of 278,000 hectares were sown at the member farms of KITE [Corn and Industrial Crop Growing Cooperative] which grow wheat. The weather was variable during the fall; however, adequate seed bed could be prepared under the wheat with disk harrows and cultivators. Much attention was given to the identification of the bed, to the supply of nutrients, to the supply of seed, and organization of the sowing activities.

1. Preplanting. The preplanting of wheat affects the harvest considerably. The percentage distribution of the preplanting was as follows during the areas sown in 1980:

Preplanting with early maturity: 19 percent
Preplanting with wheat: 52 percent
Preplanting with late maturity: 29 percent

Because of the late harvesting of maize, there is no opportunity to prepare the soil properly nor to keep to the optimum sowing schedule; thus—as the figures also demonstrate—much wheat was followed by wheat this year. Although the opinions differ about wheat following wheat, our studies indicated that wheat is about the least desirable preplanting before wheat, so that this should be avoided whenever possible. Unfortunately, in some farms the percentage of wheat preplanting is even higher than that quoted above, in some areas there have been instances where wheat followed wheat for the third year in a row. We have recommended that the species be changed in plots where wheat follows wheat; for these areas we proposed the use of Jubilejnaja 50 and GK-Szeged primarily, since these varieties tolerate consecutive sowing best.

2. Variety and seed supply. The ratio of the varieties is essentially the same as it was established in 1978. Early-maturing types continue to represent 60 percent of the area, and medium-late maturing types only 40 percent. The major early-maturing types are mainly Novosadska Rana 1-2, sown on 20 percent of the total area, and Martonvasari 4, sown on 15 percent of the area. The seed supply of these varieties was satisfactory. Insofar as medium-late maturing varieties are concerned, mostly used was Jubilejnaja 50, sown on approximately 25 percent of the total area. The seed supply was satisfactory in all instances.

There was a significant demand for the Mv-8 variety; however, since some batches of seed were infusarium-infested—this has been the case with some other varieties also—the demand could not be fully met. However, even so the Mv-8 variety was sown over 6 percent of the total area.

The Partizanka variety was sown on ground similar to that used for Mv-8. There were difficulties with the seed supply of Class II here. Because of fusarium infestation, we carried out a viability test in our own seeds too, so that we were able to replace infested seed in time. Overall, we had no major problems with wheat seed supply this season.

3. Sowing. According to experiences so far, the varieties with relatively low winter tolerance are particularly sensitive to the sowing time. The optimum sowing time is 15 October, and all varieties must have been sown by 25 October.

Depending on the variety involved, the optimum sowing depth is 4-6 centimeters. Especially in case of frost-sensitive varieties, this must be observed. For the future we must ensure that the sowing of wheat is completed within 10-15 days. For this it is necessary to put seeding machines of high productivity into service, which maintain uniform sowing depth and seed standards. We hope that the IH-10-6200 seeding machine—of which 25 units are operated on our farms—will turn out to be one like that. Of course, this number is still very low, considering the fact that we have 262 partner farms.

Weather Hampers IKR Sowing

Budapest MAGYAR MEZOGAZDASAG in Hungarian Vol 35 No 46, 12 Nov 80 p 4, 5

[Article by Dr Istvan Kiss: "IKR [Industry-type Corn Production System]--Potash Shortage, Sowing Seed Without Quality Documentation"]

[Text] In planning for our 1981 wheat production, our goal was--on the basis of experiences of earlier years--to introduce the energy-efficient methods without plowing, to increase the area loosened at medium depth, and the preparation of a seed bed of proper maturity and settlement. Basic fertilization was completed in time, in accordance with the nutrient supply capacity determined by clay-mineral tests and expected yields. Wherever the technological prerequisites were suitable, for example in partner farms equipped with IH 6200 seeding machines, we tried to introduce starter type fertilization.

Insofar as the determination of the varieties is concerned, we preferred those varieties which have a proven capability of producing good quality, dependable yield, and high production.

Insofar as the amount of sown seed is concerned, this was determined by the consideration that the density-increase tolerability and balancing capability of the plant is maintained for the amount that germinates. In addition, we increased the number of seeds germinating by 5-15 percent for the various varieties, according to experience, on the average by 10 percent. It should be noted here that we mean variety-utilization factors and not "periodical" sowing faults in this connection.

Our cooperative grows wheat on an area of 180,530 hectares in 1981, on a total of 184 farms of the cooperative. Unfortunately, sowing started late, as did the related procedures, because of the unfavorable weather. Among the major factors responsible for this, we mention the delayed vegetation of the fall-maturing preplantings such as maize, root crops, and the like, and the adverse effect of the rainy weather that predominated during the first one-third of October. Today we are already able to state in quantitative terms that the plantings before October and after October will yield 250-300 kg less on the average under comparable agrotechnical parameters than the plantings during October. For this reason, one of our most important considerations was the speeding up of the planting by means of properly managed technological capacity, appropriate organization of the work, and changes in the tables in accordance with the needs imposed by late-maturing preplantings.

We used 1000 power-operated pieces of equipment for soil preparation in the planting work, and we had 600 seeding machines for the sowing. Thus, we were able to complete the work in October, handling 14,277 hectares per day. The dry weather in some locations during September interfered with the soil work; however, the precipitation in October was helpful, so that the quality of the seed bed was satisfactory.

Insofar as fertilization is concerned, the late delivery of potash-type material had an adverse effect. Much difficulty was created by the fact that the deliveries of seed were not accompanied by the quality documentation. This was a problem with planting adaptation and the planting itself. It made us impossible not to invoke the responsibility of the suppliers and forwarders, especially in view of the fact that there were quite a few instances of satisfactory performance in this respect. We continue to be baffled by those instances where our suppliers sent us seed with a germination rate of 83 percent, in spite of the fact that this year's seed supply was favorable.

Compared to last year, we found no improvement in the ratio of centralized treatment of the seed. It seems that this is an activity that has to be performed in the last minute by the farms. The conditions are not favorable everywhere for this.

The speed of planting was inadequate, in spite of the capacity that was available. We must mention here certain deficiencies in attitude, noting that the status of the planting was related to the maturation of the maize in a number of farms.

Start of the use of IH 6200 seeding machines represented a step forward in technological development this year. This machine is suitable for soil disinfecting, starter-type fertilization, and seeding at uniform depth and distribution under direct seed-bed opening and spreading.

Deviations from the specified amount of synthetic fertilizer must be noted down as a major factor affecting production. This was caused by a shortage of fertilizer. Another difficulty, to be resolved immediately or soon, was soil disinfection to protect against insects capable of damaging eared-crop preplanting, especially wheat preplanting.

Situation of BRK

Budapest MAGYAR MEZOGAZDASAG in Hungarian Vol 35 No 46, 12 Nov 80 p 5

[Article by Sandor Sztrikinacz, technological department head: "BRK [Baja Corn Growing System--Complex Plant Protection, Tensions Around the Planting of Improved Wheat"]

[Text] Our production system has this year also prepared a table-adapted plan for the partner farms. We have already noted while the plan was prepared that the vegetation season will lengthen and thus the harvesting of fall-maturing plants may be delayed. We considered this fact when designating the tables where wheat will be planted now.

We employed branch association in the farming area. The proper ratio among the various plants has already developed in our farms. The wheat-growing area proposed by the Baja Corn-Growing System will nonetheless increase by 25 percent this fall. The extra area is made up by newly joined partner farms. We can report major area increase on the system level.

We had reliable information at planning time about the available resources, materials, and equipment in the hands of the partner farms. Now, during the last one-third of wheat planting, we can state that there were no major factors interfering with the work to a major degree. While we can present a generally favorable picture, we must also mention some minor difficulties which spoil the fun and the possibilities of the experts.

Our plans call for the stabilization of the favorable wheat crop of this year, and for its increase wherever feasible. Our plans call for an average yield of five tons per hectare. One of the costliest factors, namely nutrient replenishment, was planned at the level of 320 to 360 kilograms of active ingredient per hectare, the precise amounts differing from one table to another. In September we had temporary supply difficulties with potash-type and phosphate-containing fertilizer; however, by redispatching we managed to maintain a satisfactory supply situation. We practised suspension nutrient replenishment over several hundred hectares as an experimental project under production conditions.

The area prepared without plowing continued to increase. Preparation of the soil with disk harrows was practised over approximately 40 percent of the cultivated area. This saved considerable amounts of energy.

Complex plant protection is an especially important aspect of this year's plans. We try to treat to achieve maximum protection for the young plant.

Planting of wheat is quite labor-intensive since the sowing machines used presently must also be served directly. Speedup of planting and better utilization of the power equipment was the reason why we connected more equipment to the power sources and mechanized the seed feeding in many instances. Our system supports each and every innovation and improvement initiative.

We had sufficient wheat seed of the proper quality. Only in a very few instances was it necessary to issue so-called "Ministry of Agriculture and Food approved" seed. We found that the demand for some popular seeds has diminished since some experiences with them were not very favorable in recent years. Our partners tried to select varieties which suit the natural conditions in their farms better. We must mention the introduction of the recently approved Martonvasar 8 wheat seed and the difficulties that were associated with it. The differing opinions voiced within a short period of time favored neither the wheat variety nor the production system which endeavored its introduction.

Our plans originally called for increasing the area where improving varieties are planted. The purchasing price for 1981 crops, since promulgated, did not favor our plan. It is our judgment that the price differential between the improving and the conventional qualities does not adequately cover the quality difference. Insofar as the subject of varieties is concerned, our stand was that we should increase the area on which varieties suitable the baking industry can be grown with a high yield.

Planting of 70 percent of the planned wheat area was completed by 25 October, and on the system level we planted 82-85 percent by the end of the month. This means that in November we must plant twice as much wheat than we had to plant during any year in the past. This 15 percent more area represents a greater task and creates more difficulties than did the work performed so far. In these areas, wheat follows maize. For the sake of next year's wheat planting, we must speed up the harvesting of the maize on these lots, and we must prepare the ground sooner. The plantations already sown look good.

'Victory' Cooperative's Goal

Budapest MAGYAR MEZOGAZDASAG in Hungarian Vol 35 No 46, 12 Nov 80 p 5

[Article by Jeno Havasi, chief agronomist: "Victory Agricultural Production Cooperative, Lajoskomarom: Our Goal Is To Repeat This Year's Results"]

[Text] The results achieved with wheat during 1980 pleased everybody in our agricultural production cooperative. Our yield at the "Victory" Agricultural

Production Cooperative was 6.81 tons on 2200 hectares. This hectare yield realized the yield achieved in experimental plots in earlier years under field conditions.

The average was increased during 1980 by the improving varieties Martonvasar 4 and Jubilejnaja 50; the Martonvasar 8 variety was the best in all respects. I mention all this to illustrate the fact that the domestic varieties outshine all other well-known varieties, so that we should have no problems about the selection of varieties. We have the required prerequisites; however, while the farmer may make plans, the weather may have the last word. The weather may decide, among others, that the late-growing varieties—and sometimes also the summer-maturing ones— are late and can be harvested later than planned. This was the case recently, so that more and more grain crops had to follow grain crops. This factor, which gave us concern, required much of our attention. It involved the selection of the varieties, the setting of the optimum planting time, and the disinfection of the soil. Varieties that are sensitive to mildew and Fusarium may show reduced yield when planted after wheat, unless we implement the appropriate agrotechnical and plant-protection measures.In earlier times, Libellula was found to be tolerant. It helped us this time also. Since the area on which this variety is planted has a decreasing trend, and since we plant more wheat after another grain crop than we did before, we must look for other varieties with similar properties.

In our experience, the Jubilejnaja 50 variety also tolerates preplanting with grain crops quite well. As we have mentioned earlier, the selection of the planting time of wheat which follows another grain crop must be made with great care. We must make it quite clear that we had to set a planting time later than 20 October, no matter how tempting the free area had been for accelerated planting, if we were to avoid overgrowth during the fall. Mildew may develop in areas where there is fall overgrowth. As a result of earlier plantings, we had insect and fly damage in spite of carefully implemented protection measures.

Periodic rainfall eliminated six to 10 working days in October, just at the time when planting was due. As we all know very well, there are ways to speed up planting by proper organization, for example speeding up the harvest of the preplanting and the preparation of the soil. We did all this without reducing our quality standards in any way.

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FURTHER MODIFICATION IN AGRICULTURAL FINANCIAL REGULATORS REPORTED

Budapest MAGYAR MEZOGAZDASAG in Hungarian Vol 35 No 46, 12 Nov 80
pp 20, 21, 23

[Article by Csaba Gati and Lajos Kozuyei, Main Plan-Economy Department, MEM (Ministry of Agriculture and Food)]

[Text] The work of developing the regulating system for the period of the Sixth Five-Year Plan has already started last year, as it did for other sectors of the economy. New price and financial regulators were implemented after a thorough preparation that took several years. They became effective on 1 January 1980. On the basis of the experiences of this year—while maintaining the basic principles—certain parts of the regulators had to be corrected or supplemented.

The modifications became necessary because of increases in the costs of energy, materials, and funds; because of the need to implement the econopolitical goals of the period of the Sixth Five-Year Plan (better balance of the economy, implementation of more economical utilization of materials and funds, improved production structure, and so forth); and finally because of the effects of some of the regulators, which were not as planned.

The desirable incentive for the producers is represented by new pricing policies. The purchase prices in effect from 1981 were already publicized in September of this year, insofar as they involve agricultural products. Information about changes in price of industrial products and funds also became available.

Below we review the major aspects of the 1981 changes in the financial regulators with the aim of making the new regulations easier to understand for agricultural experts, so that they can implement them easier.

In the review we present below we do not try to cover everything; we restrict our discussion to the 1981 changes. A major aspect of these changes is that from 1 January 1981 onward the wine-producing enterprises will also fall under the agricultural regulation system.

The most important regulations concerning the modifications of the agricultural regulation system are promulgated in Council of Ministers Decree 43/1980.(XI.27.) MT, published recently. The ministry decrees associated with the above decree contain the detailed implementation regulations.

I. State Support of Agriculture

The decree 21/1980.(X.27.) PM-MEM, promulgated jointly by the Ministry of Finance and the Ministry of Food and Agriculture, covers the state support of agriculture. The decree regulates investments, operations, and state support for small producers as well as large agricultural producers operating under adverse conditions.

A) Investment Support

Plantation, Machinery, and Melioration Investments

The support system and the volume of support remains unchanged insofar as plantation investments are concerned.

Nor is there a change in the support system for machinery investments. However, the support level of tractor purchase is reduced from 20 to 15 percent. At the same time, drainage material and equipment performing various drainage maintenance functions may be purchased from 1 January 1981 onward at a price reduction of 15 percent, supplied by state support.

The support system and the volume of support remains essentially unchanged insofar as melioration investments are concerned. Eligibility for support, however, is modified. According to the modification, an interest-free loan may be granted by the MEM for water-management projects needed by large industrial-scale agricultural enterprises which lack sufficient water resources, provided that the department of economics and food affairs of the Megye concerned supports the application. This loan, supplementing the enterprise's own funds, must be repaid within five years after completion of the melioration work. Repayment must be made from the development fund. The applications for this support are evaluated by the Main Plant-Protection and Agricultural Chemistry Department of the MEM.

Construction Investments

Major changes have taken place in the support and financing system of construction investments.

According to the decree of the Council of Ministers, state support is available from 1 January 1981 onward only for constructions in the areas of cow- and pig-rearing operations. No further support is available for other types of construction investment which enjoyed state support earlier.

Another major change concerns milk-producing and pig-rearing establishments: the construction-investment support in these areas will be disbursed only after completion of the construction concerned.

Large-scale agricultural production enterprises are eligible for long-range investment loans for the realization of their long-range investments. To compensate in part for the construction support that is no longer available and to reduce the interest payments, the state may provide interest refunds for the investment loans taken.

Construction Investments for Milk-Producing Enterprises and Pig-Rearing Farms

The large-scale agricultural production enterprises continue to be eligible for state support for the implementation of their construction investments concerning milk production and pig-rearing.

A fixed support of 18,000 forints may be granted for each cow place in construction investments qualifying as milk-producing buildings or for the modernization of such investments or for the establishment of increased cow accommodations, provided that the conditions specified in Joint Decree 21/1980.(X.27.) PM-MEM are met.

A support of 35 percent may be granted for the construction and modernization of pig-rearing facilities if they qualify as investments or establishment of new facilities, and a fixed support of 7000 forints per fattening place may be granted, provided that the conditions specified in Joint Decree 21/1980.(X.27.) PM-MEM are met.

The regulation enables large-scale agricultural enterprises to utilize the form of support for the construction of milk-producing of pig-rearing facilities most suitable for the farm concerned. For example:

- The enterprise may obtain a 30 percent or a 35 percent support even if it does not establish new cow or pig-fattening places, if it modernizes existing facilities or constructs facilities that are lacking (if they are included in the list published in Appendix 2 of the regulation).

- The enterprise may decide whether to ask for percentagewise or fixed support when constructing new cow or pig-fattening places. However, the fixed support is available only if all facilities listed in Appendix 2 of the regulation are also available or will built as needed for the operation of the new accommodations (plus any additional facilities that may be lacking).

Applications for and Disbursement of the Support

The procedures described below must be used to apply for and disbursing the supports. Before proceeding with the construction work, the large-scale agricultural enterprise reports to the Megye bureau of the Main Receiving Directorate of the PM [Ministry of Finance] that it intends to realize a particular kind of cow or pig-rearing facility (and supports the report with the prescribed documentation). The report submitted by the large-scale agricultural enterprise states the expected costs of the construction, the amount of the support claimed, and the scheduled completion date of the work.

The receiving directorate or the local bureau in charge notifies the farm about the support available and the date of disbursement, determined on the basis of the information in the application. After completion of the construction, the investing enterprise submits a copy of the ownership transfer document to the Megye receiving directorate or the local bureau in charge, and requests disbursement of the support.

After receipt of the ownership transfer document, containing the relevant technical information, the Megye directorate or the local bureau in charge transfers the support, as stated in its above-mentioned notification, to the account of the investing enterprise.

In cases where percentagewise support is involved, the support is 30 (or 35) percent of the estimated construction costs, irrespective whether the actual construction costs were lower or higher than this. This means that if the enterprise realizes a lower construction cost, the support will not be reduced, but also that the support will not be increased if the construction cost was higher than estimated.

In case of fixed support, the amount is determined by multiplication of the number of accommodations actually built by the fixed sum.

In cases where the investing enterprise has taken a bank loan for the investment concerned, the support obtained must be used to pay the interest due on the loan. If the agricultural enterprise took no bank credit for the construction concerned, the support obtained is added to the enterprise's economic development fund.

Interest Reimbursement

As mentioned earlier, the state provides interest reimbursement for credits taken to enable construction investments. This remibursement is in lieu of part of the construction supports no longer provided.

An interest reimbursement of 2 percent may be granted for

- poultry farming facilities, constructed or modernized;
- construction of refrigerated storage facilities for agricultural products (both with regulated and non-regulated airspace), as well as the conversion of existing refrigerated storage facilities into facilities with regulated airspace;
- storage facilities for grain crops, vegetables, and potatoes;
- dug or drilled wells, water towers, water reservoirs, and water-storage facilities for firefighting purposes;
- stores for pesticides and synthetic fertilizer;
- facilities to compound basic fodder and to produce mixed fodder formulations;
- construction of hard-surface farm roads, including mud deflectors and square paving;
- Liquid-fertilizer treatment facilities for pig-rearing units built before 31 December 1979; and
- food-processing plants.

An interest reimbursement of 4 percent may be granted for

- construction and modernization of cattle and pig maintenance facilities;
- construction and modernization of sheep and rabbit maintenance facilities;
- fishponds;
- heated and unheated foil tents; and
- construction and modernization of irrigating facilities and rice plantations.

Interest reimbursement may be granted in amounts not exceeding 70 percent of the estimated costs of the investment project, however, no more than the amount of credit actually taken. This means that if the amount of credit obtained for the investment exceeds 70 percent of the investment cost, interest reimbursement can be granted only for 70 percent of the investment cost; no interest reimbursement is available for amounts of credit exceeding this. Of course, in cases where the amount of credit given is less than 70 percent of the cost of the investment, interest reimbursement may be granted for the total credit.

In view of the fact that interest reimbursement differs in individual investments, it is advisable to state in the application for credit the actual investment for which it is intended.

Interest reimbursement is administered by the bank that grants the credit.

B) Production and Other Support

The modification of the support system for agricultural establishments also affected some of the supports involving production and operation.

Support of Cattle Rearing for Meat Production

The price supplement available on the basis of calves produced in meat-cattle establishments remains 4700 forints for each live-born calf during 1981. There are no changes in the conditions governing this price supplement.

However, grants concerning the state revolving funds related to changes in the cow complement underwent a modification. According to regulations that were in effect until 31 December 1979, a revolving-fund supplement could be granted on the basis of the increase in the cow complement that took place until December 31, 1980 (both milk and meat cows). According to Paragraph 2, Section 5, of the joint decree 42/1979.(XI.1) PM-MEM, the support is available for the population of meat-cow places according to the conditions laid down in the original document. According to the new regulations, in effect from 1 January 1981 onward, the large-scale agricultural establishments are entitled to a stock-increase grant of 20,000 forints per newly installed meat cow. This sum must be added to the revolving fund. The grant may be given irrespective of the construction of accommodation facilities.

The increase in stock must be computed on the basis of the average complement, using the rules of chronological average-value calculation. (The method is the same as was employed in the earlier procedure to establish the revolving-fund supplement support.)

The basis for determining the increase must be that number of cows which was last used to compute the revolving-fund supplement support or stock-increase grant. However, the basis quantity of cows cannot be less than the average quantity for the year 1980.

Grants to establishments holding both meat and milk cows can be given only on the basis of the increase in the total number of cows.

In 1980 and in the years thereafter, the basic quantities must include the cows missing because of tuberculosis or brucellosis eradication or any other valid reason, provided that the cows must be replaced as a result of the eradication or other measures. At the same time, the average quantity must be reduced by that amount after which the large-scale agricultural establishment has since repaid the support obtained.

The large-scale agricultural establishmentswhich, according to Paragraph 2, Section 5, of the joint decree 42/1979.(XI.1) PM-MEM, constructed accommodations for meat cows are not eligible for stock-increase grants. The PM and the MEM determine jointly the basic meat-cow complement after the new accommodations have been populated.

In cases where there is a decrease in the meat-cow complement, the revolving-fund supplement support or the stock-increase grants obtained must be reimbursed. The higher of the legally obtained grants must be reimbursed first. The deadline of reimbursement is 15 February of the following year, as it is for the submission of applications for the grants.

Although the agricultural establishments are not entitled to revolving-fund supplement grants for increases in the milk-cow complement from 1981 onward, they are still eligible for the revolving-fund supplement grant they were entitled on the basis of earlier regulations for a period of three years. (This applies if the complement increase actually took place within the three years.) According to the new regulations, the revolving-fund supplement grant obtained on the basis of an increase in the non-meat cow complement achieved before 31 December 1980 need not be reimbursed if there is a reduction in the complement after 31 December 1983, provided that five years have elapsed after the funds were obtained. The time of fund receipt is the year in which the increase in the cow complement actually took place.

In cases where the agricultural establishment has received the permission for a temporary reduction of the cow complement—for reasons of tuberculosis or brucellosis eradication or other reasons—it is also allowed a delay in the reimbursement of the revolving-fund supplement grant, and the five-year period mentioned above must be extended by that many years during which the cow complement was below the complement established with the help of the support.

Support of Lawn Planting and Renovation

The large-scale agricultural enterprises obtain a support in the form of a fixed sum per hectare for lawn planting and lawn renovation, according to the provisions of the joint degree 42/1979.(XI.1.). This form of support is doscontinued as of 1981, according to a decision of the Council of Ministers.

However, the regulation earlier in effect permitted the grant to be obtained over a period of several years in cases where relatively large areas were to be planted or renovated. Accordingly, the new regulations permit the support to continue to be received in 1981 and 1982 if earlier decisions provided a long-term grant. This means, that the support (in annual instalments) will continue to be paid if the covered period started in one of the years between 1979 and 1980.

Thereafter, all lawn-planting and -renovating projects will have to be realized from the enterprises' own funds or with the aid of credit. The production costs can be accounted in annual intervals over several years.

Support for the Procurement of Synthetic Fertilizer, Pesticides, and Weed Killers

Large-scale agricultural establishments may continue to purchase synthetic fertilizer, pesticides, and weed killers at a price that is reduced by supports from the state.

The support amounts to 37 percent of nitrogen fertilizer of domestic manufacture, 50 percent for phosphorus fertilizer of domestic manufacture, and 21 percent for pesticides and weed killers of any origin.

There is no change in the manner the support is handled administratively.

Support of Vegetable Growing

The extent to which large-scale agricultural enterprises can avail themselves of the vegetable-growing support specified in the joint decree 42/1975.(XI.1.) PM-MEM is described in the new support regulations in detail. The following options are available:

a) Those large-scale agricultural enterprises which determine the development support for the first time on the basis of their 1977 vegetable crop, according to an approved application, will be eligible for the support on the basis of their 1981 vegetable crop for the last time, provided that they have in fact grown vegetables on an area at least as large as described in the application during 1977-1980, and maintain the area of vegetable growing for 1980 during 1981 also;

b) Those enterprises which submitted their applications later and determined the price support for the first time on the basis of their 1978, 1979, or 1980 price income, are eligible for the development support for four years beginning with the start of the area growth, provided that they have increased the area (or are increasing the area) as prescribed. Accordingly, those enterprises which started area growth in 1978, will be eligible for development support for the last time in 1981, those which started it in 1979, in 1982, and those which started it in 1980, in 1983.

It is conceivable that a large-scale agricultural enterprise was unable—for reasons beyond its control—to accomplish the increasing of the area undertaken in the application or prescribed by the joint decree 42/1975. (XI.15.) PM-MEM. In such cases, the regulations permit the department of food affairs and finances of the Megye council to release the large-scale agricultural enterprise from its obligations, and to grant a development support in the amount of 10 percent of the price income on an equitable basis.

Support of Large-Scale Agricultural Enterprises Operating Under Unfavorable Conditions

The support system for large-scale agricultural enterprises operating under unfavorable conditions remains essentially unchanged. The conditions of classification, as well as the forms and extent of the support remain unchanged; however, the computation of the price support changes somewhat. The changes, introduced primarily to simplify the procedures, are the following:

a) Until now, in the case of processed products, the price support could be requested on the basic of the value of the price of the starting material that had been processed. In the case of certain processed products (such as alfalfa meal and some other similar products), it was difficult to establish the base selling price or the price support. Accordingly, the regulations were modified so that if there is no sale price available for the starting material, the basis for the price support is the selling price of the processed products plus the cost of processing, less the profit that has been realized.

b) The price support that can be applied for on the basis of the value of purchased fodder had to be deducted from the total support. But it was quite complicated to make the required calculations in case of mixed fodder, especially in cases where the large-scale agricultural enterprise was entitled to both the basis-price support and a special price support.

   In the future, the sum to be deducted will be determined only on the basis of the basis-price support, and the deduction will be always calculated by using the uniform basis price of 400 forints/100 kg.

C) Support of Small-Scale Agricultural Production

The economy continues to emphasize the importance of domestic and auxiliary farms in the years to come. Accordingly, the present forms of support for the featured operations remain in effect.

Thus, there will be no change in the extent and the conditions of support for vegetable growing under a foil cover.

The small producers will continue to enjoy a 20 percent price reduction of specified machinery. This continues to apply to enterprises permitted to lease machinery. State support is available only for those agricultural machines, pulled by tractor, which cultivate the soil, perform seeding, protect the crop, and carry out harvesting, as well as serve like trailers.

Support of Plantation Establishment

Small agricultural enterprises have already been able to purchase propagation material under a price support for establishing berry plantations, provided that they have contracted with the authorities in charge for a period of at least three years concerning the sale of the product.

The new regulations provide major simplification and improvement by reducing the minimum prescribed plantation area from 1000 square meters to 500 square meters. Such area is already available in many house gardens, so that a larger number of individuals can now enter the group of small-scale producers.

The enterprises supplying propagation material will be allowed to figure with the following support from next year onward for berry propagation material sold on the basis of the product-marketing agreement (per 100 units of propagation material):

Wild stawberries:	80 forints
Raspberries	120 forints
Black and red currants and the like such as gooseberries	800 forints
Red and black currant and gooseberry seedlings	1200 forints

There are no changes in the conditions governing the growing of non-berry fruits. The conditions remain the same as they are for large-scale agricultural enterprises insofar as the extent and prerequisites of the farming conditions are concerned.

According to the new regulations, a support identical to that provided for large-scale agricultural enterprises is available for the establishment of berry plantations over a contiguous area integrated within the large-scale farm.The support is also available if the area is not directly adjacent to the large-scale plantation.

Support of Cow Maintenance

Support continues to be available to small-scale agricultural enterprises on the basis of the cows they themselves own. The amount of the support is 2500 forints for the first cow, and 6000 forints (up from 5000 forints earlier) for each additional cow. The small farmer may receive the support in advance for four years provided that he undertakes to increase his complement with self-bred or purchased calves or pregnant cows, and enters into a four-year rearing agreement for the increase.

A new condition has been incorporated in the support system for cattle rearing by small farmers. The aim of the condition is to stabilize the increased complement. According to the change, if the small farmer already has one cow and increases his complement by installing another cow, the second cow will be "reclassified" into a first cow if the first cow can no longer be kept and is not replaced. The support obtained for the remaining contract period must be repaid to the extent of the support differential between first and subsequent cows for a cow that has been reclassified in this manner.

Here is an example: The small farmer had one cow and then installed a second one with a four-year rearing agreement. He obtained a state support of 24,000 forints for the second cow. If, during the contract period, he sells the cow, for example because it became too old, during the second year and does not replace it, the second cow will be reclassified into a first cow. Then, the time-proportional share of the remaining contract period—two years—is 12,000 forints. Yet only 5000 forints are available for this period for a first cow. The difference is 7000 forints, which the small farmer has to repay.

A new feature of the regulations is that the certificate of absence of tuberculosis need not be submitted by the small farmer (this is prescribed for the application for state support in other cases). Although absence of tuberculosis continues to remain a condition for state support, a special certification of this is required only of the veterinarian in charge determined that there is tuberculosis infestation in the cow complement kept on the farm. In such cases, payment of the support is suspended until absence of tuberculosis can be certified once more. However, elgibility for support does not cease if the cow is removed within five month from the determination of infestation and replacement is made.It should be noted here that a pregnant cow must be installed if a cow with a four-year rearing contract is involved since such replacement is regarded in the same manner as in case of rearing termination.

The annual support has been increased according to the regulation for the second cow and any additional cows. Of course, this affects all small farmers who own such cow(s).Those who contracted for a four-year rearing period and have received the support provided, can become eligible for the increased support for the remaining contract period for any second and additional cow(s). The differential is disbursed by the Megye animal-rearing inspectorate without the need of a new application.

An example: The small farmer has three cows, of which the first and the second are reared on an annual basis, and the third is reared under a four-year contract. There is still 2-1/2 years to go on the latter contract. In 1981 the support is the following:

2500 forints after the first cow
6000 forints after the second cow

2500 forints after the third cow for the remaining rearing period
(2.5 years at the rate of 1000 forints per year)

It can be seen from the example quoted abive that the fractional year must also be included in the determination of the support differential. (Of course, the support differential is received by the small producer only in 1981, but then for all the remaining years.)

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POLAND

HEAVY INDEBTEDNESS, REPAYMENT METHODS DISCUSSED

Warsaw ZYCIE GOSPODARCZE in Polish No 50, 14 Dec 80 pp 1, 8, 9

[Round table discussion, materials prepared by Andrzej Lubowski: "Are We Doomed to Indebtedness?"]

> [Text] Our indebtedness is assuming alarming dimensions. Total indebtedness will amount to 23.5 billion dollars as of the end of the year. Debt service costs will be an increasing burden on our economy. Are we doomed to further indebtedness? Do any methods exist for postponing repayment of loans? We attempted to answer these and other related questions in a discussion organized by our staff, which included the participation of the following: Stanislaw Dlugosz, deputy chairman of the Planning Commission; Zbigniew Karcz, director of the Foreign Department of the Ministry of Finance; Marian Krzak, Minister of Finance; Prof Marian Ostrowski, director of the Institute of the World Economy; Prof Stanislaw Raczkowski, from the Main School of Planning and Statistics, and Doc Dr Wieslaw Rydygier from the Institute of Finance. The discussion was moderated by Jan Glowczyk, chief editor of ZYCIE GOSPODARCZE.

JAN GLOWCZYK: We presently find ourselves in a situation where further indebtedness is very necessary to us from the standpoint of internal equilibrium, not only economic but also political. On the other hand there prevails a fairly unanimous conviction that we have crossed over a certain threshold of indebtedness, that our indebtedness is excessive.

At the beginning of the 1970's the thesis was strongly advanced that large imports of modern equipment and technology on credit would propel us forward and would become a nucleus for production and export expansion. I was not a supporter of this thesis, but I did give thought to whether, in spite of heavy indebtedness, we should not if possible reach right now for imports as a factor to move the economy from its state of stagnation.

STANISLAW DLUGOSZ: Let us take a look at the conditions under which we shall be compelled to operate in the immediate future. I am thinking about this next year or two. I would not go beyond this point, for there are too many unknown factors. The entire economy has come into a considerable state of disorder. The following are the most clearly in evidence:

a strong tendency toward increased individual and collective consumption, intensified by social-wages solutions in recent months;

a lack, both among the general public and a segment of the so-called decision makers, of an understanding of the necessity of greater discipline in the capital investment process; any actions of this type will find support as long as it only affects one's neighbor;

a continuing import-favoring attitude, as if the state of the balance of payments could permit it;

viewing of export, other than a few exceptions at best, as a necessary evil.

Added to this was a catastrophic production decline in agriculture which, let us hope, will not be repeated this next year, as well as a decline in the production of many of our export items. At the same time demands that we import more, because we are short of so many needed goods, is accompanied by a demand that we export less, on the very same grounds, or at least in order not to impoverish the market. But the best thing would be for us to pay off our debts occasionally. There still is lacking a public awareness and understanding of certain ineluctable interrelationships. One cannot blame the average citizen; it is we who should be blamed, all of us who are in a certain sense responsible for the economic education of the public. Perhaps a certain justification is the fact that matters pertaining to the balance of payments have been a taboo topic until recently. On the other hand, the question of whether we can continue to incur debts demands an answer not only to the question of whether we want to continue incurring debts but also whether there is anybody who will want to continue lending to us, how much, and at what cost.

WIESLAW RYDYGIER: This year debt service, that is, payment of debt installments and interest, will consume all revenues from commodity export to capitalist countries. Next year not only further growth in imports but even maintaining them at the current level depends primarily on what rate of export growth we can achieve. But it will be no easy matter to increase this rate of growth.

Credits obtained in the 1970's did not help increase the export capability of our economy. The bulk of these credits were used for import of supplies, and the import intensiveness of current production has increased greatly. These are the main reasons both for the necessity of limiting imports and for the fact that these restrictions have such a negative effect on production growth capabilities. In addition, import cuts impact primarily on export, for export production is presently more import-intensive than production as a whole. Although the results of the events in August and succeeding months are very hard on the balance of payments, for they affect such important Polish export items as coal, copper and silver, for example, even without them the payments situation would not look rosy and it would be difficult to meet industry's demands for raw materials and supplies.

One must bear in mind that if the resulting partial utilization of productive capacity is sustained for a period of several years, this threatens loss of the modernization effects of capital investment made in the 1970's, although they are very moderate in comparison with past expenditures. Therefore I believe that the earliest possible recovery from the present crisis, even if one takes into consideration that over the short run this will require greater "belt tightening," in the final analysis is much more advantageous. This must be clearly stated, and an effort must be made to obtain the approval of the public for this way of getting out of the present crisis, for in a few years these capital investments will be obsolete (depreciated).

J. GLOWCZYK: Assuming, however, that we shall sustain additional losses over those already sustained, can limiting capital spending alleviate our repayment difficulties?

W. RYDYGIER: Without question it can. Cuts in capital spending free a certain amount of funds in imports. They also free supply funds from domestic production and limit energy requirements not only directly but also indirectly (for the metallurgical industry and cement industry fall within the group of the largest energy consumers). If these decisions are not made soon, however, imports for these facilities will continue, and domestic production for them will also continue.

MARIAN OSTROWSKI: In my opinion, one restriction to growth of our indebtedness in the immediate future will be capability to obtain loans. In the short run the economy will be guided little or not at all. We shall be subject to pressures on capital spending, on import, and there will be a lack of export incentives. I do not believe that the so-called decision-makers can curb these trends in the short run. The only possible way to maintain blood circulation in the economy will be a further growth of indebtedness. Nor do I view that as a great misfortune, under the condition that new credits are utilized sensibly, better than in the past. It is necessary that we clarify for ourselves and others these trends, their character and force, and particularly their implications.

STANISLAW RACZKOWSKI: Are we doomed to indebtedness? Since we continually receive for our exports less than we spend on imports, we must cover this gap with something. We shall not have problems obtaining new credit only when the potential creditor is convinced that he will get his money back. Consequently he will examine our export capabilities, since in the long run there is no way to control debts other than by exports. Nor should we forget that the greater our indebtedness, the more we must pay in interest. With current interest rates, which are averaging more than 10 percent, we pay more than 2.5 billion dollars annually in interest alone. This is money for which we receive no goods from abroad. This is a net liability on national income. If we assume that in order to obtain one dollar, on which interest must later be paid, it is necessary to export goods the production of which costs us on the average, let us say, 45 zlotys, we come up with a sum greatly exceeding 100 billion current zlotys.

There are countries with greater indebtedness than us, such as Brazil. But its export capabilities are greater. In addition, Brazil has obtained considerable long-term credits, 10 years and longer, is considered a developing country and enjoys preferential treatment by the World Bank. Is this true of us?

Those who believe that we have incurred debt chiefly for capital investment are in error.

W. RYDYGIER: I estimate that approximately 20 percent of credits utilized in the 1970's went for machinery and equipment, approximately 14 percent went for grain and livestock feed, and approximately 66 percent for raw materials and supplies.

S. RACZKOWSKI: The fact is, grain and livestock feed are purchased not on 10-year credit but on two or three year credit at most. Nor does anybody sell rolled product on 10-year credit. As a consequence of the fact that the bulk of our indebtedness has involved purchase of raw materials, supplies, and agricultural products, the repayment periods for these credits are relatively short, and therefore the coming years will be burdened by heavy repayments.

S. DLUGOSZ: I would not want the impression to be created by what Professor Raczkowski said about interest that every year we throw more than 2 billion dollars out the window, that we receive nothing for this money. This is simply the price we pay today for the fact that at some time in the past we purchased something on credit, more or less rationally. Credit always costs.

Brazil was mentioned. A couple of years ago the Brazilians began taking steps to replace medium-term, three to five-year credits with long-term credits, consciously obligating themselves to substantially higher costs for these credits.

W. RYDYGIER: In 1980, however, they did not obtain the total amount of credit they required. This forced Brazil substantially to reduce their foreign exchange reserves. It has recently been reported that Brazil has endeavored to enter the U.S. domestic short-term money market, into which the big corporations and insurance companies have put their cash. In this market Brazil seeks to obtain credit with a 30-45 day repayment term, which can be extended, but not beyond two years. I believe that we too may have difficulty obtaining the amount of credit we shall need.

ZBIGNIEW KARCZ: The point is to determine how much we shall need. If we define essential amount of credit as that sum required to maintain the present level of import and export, and let us not forget about repayments, things will be difficult. I consider as unrealistic a variant whereby loans would also be used to stimulate the economy, and thus assure an additional injection of imports. This means that an operation of the same type as in 1972-1976, even on a smaller scale, is not possible. On the other hand, if we adopt the position that credit should assure us a small import growth, with changes in the structure of import, that is, a decrease in purchases of machinery and equipment, and restriction of agricultural imports in the future, while at the same time not hindering the economy and providing it with essential raw and other materials, such a variant would seem possible, if one condition is met: showing new creditors a solution to the present situation. We shall obtain more if we convince the banking community that money loaned to us will be intelligently utilized.

S. RACZKOWSKI: Particularly since the bulk of our indebtedness is to private banks, not governments.

S. DLUGOSZ: But a large part is guaranteed by governments.

S. RACZKOWSKI: Nevertheless these are private banks, which are interested in whether and when they will get their money back. Consequently the main thing is a program of solution which must specify over the course of how many years we shall achieve our goal of keeping down further growth of indebtedness.

Z. KARCZ: And it must be a program affecting the entire economy, for nobody will put faith in improving the health of foreign trade alone.

S. DLUGOSZ: It is easiest for a strong economy to obtain credit. But a strong economy is not always healthy. I believe that today we are precisely an example of a fairly strong economy from the standpoint of production and raw materials potential and work force skill level, which is going through a crisis of health. The sooner we overcome this ailment, the easier it will also be for us to operate in the credit market.

MARIAN KRZAK: Are we doomed to further indebtedness? The answer is simple: at present we have no other option -- it is a necessity. If it were not for the disaster in agriculture, which will also strongly affect this coming year, and the results of the decline in industrial production in the latter half of this year, I believe there would be a chance of turning around the trend toward increasing indebtedness sometime in 1983. Under the present conditions this moment has been pushed further into the future.

It is the same with a country's economy as it is with any commercial enterprise: that which is prospering well has no difficulty receiving a bank loan. A bank must give loans, for that is its lifeblood. The question is: to whom? If a client generates confidence and guarantees that he will repay the money, the bank will extend loans, you pay back money and immediately receive back that same money. The truth is that the present situation in our country arouses doubts about our reliability among some financial circles in the West. For this reason we need strong conditions for rebuilding that reliability -- the most important condition is precisely an economic program, a clear, sequentially-constructed program covering a period of 5-7 years.

S. DLUGOSZ: Particularly valuable under the present conditions is the understanding shown for our economic situation by our CEMA partners. As we know, the Soviet Union, in addition to increasing goods deliveries substantially above the originally determined figures, has extended to us for this coming year 1.1 billion dollars credit in convertible currencies. Other socialist countries have also been forthcoming to assist us. We shall purchase from them market goods exceeding by more than 200 million dollars the annual trade agreement figures, although we ourselves will be unable to meet our obligations. Let us not forget that we receive credits not only from Western banks. Our membership in CEMA is a considerable external trump card, and our Western partners, when appraising Poland's capabilities, also take into consideration our participation in the processes of socialist integration.

M. KRZAK: Cooperation with the CEMA nations gives us in addition certain flexibility as regards both import and export, although production cooperation possibilities are still far from being fully utilized.

W. RYDYGIER: I consider proposal to our CEMA partners of utilization of our available production capacity to be an important area of utilization of this cooperation to resolve our difficulties. Export of finished products on the basis of orders placed by our partners and utilizing their raw materials can in many areas be mutually beneficial. After all, we shall have available productive capacity, while the bottlenecks are raw materials supply.

M. KRZAK: Such possibilities are being considered, although when the question of this available production capacity is raised, it is usually followed by deafening silence.

Z. KARCZ: Since you mentioned bottlenecks, a questions arises: must maintaining imports at the present level actually mean problems with supplying the economy with raw and other materials? How much import do we really need? For many years now we have been unable to obtain from the Planning Commission and from the ministries an answer to the question of how much is actually needed for: a) maintaining production; b) maintaining or increasing exports. Nobody in this country has made such a calculation. We know only that up to the present time so much import has been required for one percentage point of production. Taking this as a point of departure for further calculations, we are in some measure countenancing the past structure of production and the past excessive import intensiveness.

M. KRZAK: Returning to indebtedness, I believe that one of the main reasons for the present situation is the huge grain imports these last couple of years. A ton of grain, including shipping, costs us more than 200 dollars. And add interest payments to that. What I am about to say will certainly win me no well-wishers and is not a popular thesis, but I believe that we have exceeded our capabilities in the area of food consumption. Underestimation of agriculture and mistakes in agricultural policy led, among other things, to a 10-year lag in crop production in relation to livestock raising, and we have been patching over this gap with grain imports.

J. GLOWCZYK: Does that mean that immediate and long-range actions to boost agriculture should today be one of the principal ways of solving our payments problems as well?

W. RYDYGIER: I should mention that over the entire last decade only 14 percent of credits went for purchasing grain and feed.

M. KRZAK: One could dispute those figures.

M. OSTROWSKI: But let us not argue about whether the figure is 14, 16, or even 18 percent. The important thing is that if we had produced much more grain and root crops, this would have greatly eased the balance of payments.

W. RYDYGIER: It certainly would have helped, but it would not save the situation.

M. KRZAK: The decline in agricultural production in this country was accompanied by growth in food consumption. And if to that we add migration from the farm to the city....

J. GLOWCZYK: Precisely. The point is not growth in the overall level of consumption but only the fact that a couple of million people who formerly had been obtaining their food directly on the farm, were now in the city.

M. KRZAK: And these are different consumers. One cannot call the migration proper a negative phenomenon, but the growth in consumption connected with this migration was occurring and to a large degree continues to occur on the basis of credit.

M. OSTROWSKI: Let us not get into an argument over high consumption, for this assertion is highly debatable. A more important point is that agricultural potential is far from being fully utilized, while in the 1970's with growth in the aspirations of the public, including the area of consumption, possibilities for growth of agriculture were impeded.

M. KRZAK: In 1974 we had the same number of hogs as today. But at that time we were importing 3-3.5 million tons of grain, while in recent years the figure has climbed to 8-9 million, not to mention this year's crop failure, as a result of which we must purchase abroad 10 million tons of grain and feed as well as substantial quantities of foodstuffs. The cost of fattening a head of stock has increased greatly. And this item is weighing increasingly more heavily in the structure of our imports and indebtedness. The price system is also not without influence on the enormous waste occurring in production and utilization both of feeds and foodstuffs.

Take the example of carp, a matter which I recently raised publicly. Seemingly a trifling item, but it has become more important as the holidays near. The correspondence I have received has also included letters from carp breeders. They write that carp are in short supply because the price is such that it is not very profitable to raise them. Let us consider what is better to maintain a low price domestically, to suffer a shortage, and to import for dollars, or to raise the price and have sufficient domestic production? Or take potatoes. As long as the price was low, there were no potatoes available. The price was made more flexible, and potatoes appeared on the market. Consequently causes of the excessive import intensiveness of the agricultural-foodstuffs area are also to be found in the price mechanism proper. But this does not apply only to that area. Our industry solves all problems most easily by means of imports. General waste is most easily remedied by imports. An import does not cost the importer anything. Until we basically solve this problem, pressure toward increase in indebtedness will not disappear.

J. GLOWCZYK: I do not agree with the thesis which derives our payments difficulties from excessive food consumption and grain import. This thesis cannot be defended. I return to the past, since if we do not provide ourselves with an answer to the question of why we have gone into debt, we shall not construct a correct program of solution. And we went into debt chiefly because we imposed an unprecedented rate of capital spending, with a poor structure of capital investment. With a structure which was abstracted from agriculture, among other things, we left agriculture in the lurch, and when it was necessary to save the situation, the decision was for the worst type of financing of agriculture, namely huge grain imports.

M. KRZAK: I do not see any difference between our views. But of course I was saying that agriculture has been improperly developed, that we failed to build a domestic food production base.

J. GLOWCZYK: Consequently let us clearly state that our indebtedness lies in 700-800 billion zlotys of frozen capital outlays with a faulty structure, in a commitment amounting to 1 trillion 200 billion. What is worse is that we shall not derive much from this. How much of this represents imported equipment? Much more than would seem from the labels on the machinery, for there is considerable import involved even in domestic production of machinery, for imported metal, imported fuel, etc are utilized in its manufacture. If the structure of these outlays were reasonable, it would be much easier to come out of the crisis. But this way we are doomed to bury a portion of those outlays. And the more consistent we are in capital spending cuts, the better it will be. We have not been done in by large imports of foodstuffs. Import of foodstuffs became a tactical measure when there was no other solution.

M. KRZAK: The entire process of indebtedness can be divided into two phases: in the first phase, in the years 1972-1975, dominant elements included very spontaneously growing capital investments, which were more and more committing our production potential, as well as forcing us into considerable import of raw materials, which cost us so much and is continuing to cost. On the other hand, later there occurred substantial imports of grain and feed; in the period 1976-1979 trade in agricultural-foodstuffs items, not including shipping costs and interest payments, resulted in an unfavorable balance amounting to more than 2.7 billion dollars, while this year this negative balance increased by 1.3 billion dollars in the first 10 months of the year. Consequently there are several sources of today's state of indebtedness. As the most important source I would name the capital investment fever of the years 1972-1975, which caused a considerable growth in the import intensiveness of our economy.

M. OSTROWSKI: We wanted to accomplish something which nobody in history had accomplished, even under more favorable conditions, without resorting to external sources of financing. We wanted, namely, simultaneously to push both industrialization (and therefore capital investment) and consumption, and within such a short period of time. This development strategy, combined with our system of operation, which failed to adjust for desire and inflated ambitions, could not help but result in indebtedness. And the fact that at the beginning greater capital purchases abroad were conspicuous, with a later bailout by importing grain, was obviously the logic of this process.

S. DLUGOSZ: Let us also mention external elements which fostered indebtedness.

First of all, creditors recognized immediately that our policy of dynamic development would produce results, and in the second place at the beginning of the 1970's a favorable credit-coproduction transaction was conducted with Fiat -- I am referring to the license agreement for the 126p, and it seemed that each additional agreement would be a duplicate of those benefits. In the third place, as regards seeking credits, let us call them supply credits, for chemical, metallurgical or textile products, this coincided in time with a recession and relative overproduction in Western Europe, especially in the steel industry -- this was the reason why it was so easy to obtain these credits, even five-year credits.

M. OSTROWSKI: And what will the future bring? Increased indebtedness is inevitable. The question is how should we utilize this growth in indebtedness in order to initiate a process of putting our economy in order and nursing it back to health. Our maneuvering room is even narrower than it would seem. I do not believe that structural changes in the world economy have favored us, and together with a decline in coal export we shall be dealing in fact with a drop in our "terms of trade." We shall be compelled, with a higher debt ceiling, to operate under conditions of greater nervousness and uncertainty.

The word "moratorium" has not yet been used in this discussion, a word which has begun to appear in some publications as an antidote to our problems. Let us elucidate just what a moratorium is.

S. RACZKOWSKI: A moratorium is agreement by a creditor to defer repayment. It applies to specific credit agreements. We are dealing with a moratorium when we say: Gentlemen, we are unable to pay. We would like to request that you defer for us all payments for, say, four years, and when those gentlemen would agree. A moratorium does not reduce my indebtedness by a single cent, but merely puts off the burden of repayment to a later date.

J. GLOWCZYK: But interest payments continue to come due.

S. RACZKOWSKI: It could be either way, depending on the type of moratorium. The best example I know is the Hoover moratorium of 1930, when the United States unilaterally agreed to suspend war debt service. And that suspension is still running. We owe the U.S. Treasury Department 200 million dollars in debts and 400 million dollars interest.

S. DLUGOSZ: For materiel supplied to Haller's army.

S. RACZKOWSKI: We should stress that a moratorium deferring repayment to a later date eases the psychological burden. It gives a feeling of relief and relieves pressure.

S. DLUGOSZ: And everybody is pleased that it is possible to resume imports.

S. RACZKOWSKI: Precisely. Or to go into debt again. But after all, the very declaration of moratorium will eliminate the possibility of obtaining new loans, for who will be inclined to loan money to unreliable debtors?

Z. KARCZ: In the public's eyes the word "moratorium" is like a wonder-working pill, a fine Bayer aspirin tablet which will take care of the matter of indebtedness and will assure the possibility of imports. But we must state quite openly and with brutal frankness: if beginning this next year we do not have a growth in export, we shall not be able to maintain the past level of import.

S. RACZKOWSKI: On the other hand, refinancing is a measure of a different nature. I pay off old debts with current export revenues and contract new debts for new imports. This procedure compels a concrete export effort, as well as import frugality.

I doubt whether anybody will believe that our programs are realistic as long as we are such spendthrifts as at the present time. The Japanese have reduced their oil consumption by 10 percent, the French by 8 percent, and the Americans are also consuming less today than yesterday. But what about us? We must economize, in coal, for example, for coal can generate considerable foreign exchange. I see a need for an extensive economy campaign from the standpoint of foreign trade. Let us get "Solidarnosc" involved; let the "Solidarnosc" committees at the various enterprises commence seeking out possibilities of achieving economies.

Z. KARCZ: What else militates against a moratorium? Announcement of a moratorium involves certain formal-organizational measures not only on the part of the debtor and creditor. Therefore things do not end with the creditors giving their consent and the debtor accepting specified conditions. Our principal creditors belong to the Common Market, to the European Economic Community, and this affiliation brings concrete consequences. For example, as regards existing agreements, if we were to declare a moratorium, nowhere else could we obtain additional loans. That is, our maneuvering room would then be narrowed just to that group of countries.

Here is another reason why we must, in my opinion, avoid a moratorium.... For this would additionally restrict our freedom of decision. Let us hope that we succeed in managing our economy better than those who would be directing us in case of a moratorium agreement. The example of Turkey shows us that this is not a happy solution, since after two years the state of its economy and balance of payments is worse than when negotiations began.

S. RACZKOWSKI: Let us define some terms:

rollover -- this means obtaining new credit from the same creditor, in the same amount as before, although not always on the same terms; proceeds of the new loan are used to pay off the old loan;

refinancing means obtaining new loans from different creditors to pay off old debts;

rescheduling is a change in the terms, with the agreement of creditors, on which loans were obtained -- as a rule it means extending the period of repayment;

we have already defined moratorium;

repudiation is unilateral refusal to acknowledge or pay a debt.

The difference between moratorium and repudiation is not insignificant, for a moratorium is accomplished with the consent of the creditor, who does not attempt to attach the debtor's property abroad. On the other hand, if a debt is repudiated, creditors may attach the debtor's assets in foreign banks and even slap a lien on the debtor's ships which visit foreign ports.

M. KRZAK: Since many journalists advise us to declare a moratorium, I suggest that methods of practical solutions be left to the experts, for we are dealing here with a very important matter, our reliability. Our main concern is to reduce the burden of loan payments.

W. RYDYGIER: Returning to our own backyard, I repeat that import of raw and other materials is our main payments problem. Two-thirds of loans obtained in the 1970's went to pay for these imports. These imports are at the present time a fundamental condition for the functioning of industry. I submit that we can scarcely count on obtaining the credits we need with the present structure of production and consumption. We cannot count on credits enabling us to restore our economy to health. Conclusion: in addition to capital spending cuts and measures to improve the situation in agriculture, serious changes are needed in the structure of consumption of certain raw and other materials. This means giving up certain products and restricting others. Otherwise we shall not be able to escape from this vicious circle.

S. DLUGOSZ: The possibility of obtaining additional loans depends on the kind of loan. It will be easier to obtain transaction credits than finance credits, for the former are credits promoting our partners' exports. I am essentially a moderate optimist as regards the possibility of financing our import needs this next year. We must, however, obtain terms whereby new credit operations will not excessively increase our indebtedness. Obviously, as I have already stated, we have a great deal of work to do. If we are unable to present a convincing program, the doubts expressed by Docent Rydygier may prove justified. They will help us when they see the program.

M. KRZAK: They will help us when they see that we are helping to solve our own problems.

S. DLUGOSZ: The Polish public must realize that the events of recent months have weakened our partner position, like it or not, if only by an enormous reduction in the export of certain goods which are very important both for us and for our contracting parties, both in the nations of the socialist community and in the capitalist countries. We are defaulting on signed contracts, and it is necessary to restore as rapidly as possible our damaged reputation as a solid partner.

M. OSTROWSKI: I am reminded of the story about the economist who found a can of food on an uninhabited island. Other than that he had nothing in his possession, no tool or implement. He said to himself, however: "Assuming that I have a can opener." You might ask what my point is. I would not want anybody to draw the following conclusion from our discussion: we are having difficulty obtaining credit, but when we obtain funds for imports, then.... It has been stated time and again during this discussion that the final key to a solution to the crisis lies within our economy. Put specifically, we must find ways to transform these imports into efficient production, including export production.

It would be a delusion to expect that anybody today would be capable of building such a program without obtaining public support. The point is to give such a program the concrete content of essential economic actions which free reserves. And -- above all -- we are not trying to convince anybody that it will be easy.

S. DLUGOSZ: Returning stabilization is not an instantaneous thing, but a process extending at least several years. The public must get used to that idea.

M. KRZAK: And we shall have to strengthen our economic reliability among our partners abroad.

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DRAFT THESES ON AGRICULTURAL DEVELOPMENT

AU271535 Bucharest AGERPRES in English 1140 GMT 27 Dec 80

[Text] Bucharest, 27 Dec (AGERPRES)--The Romanian newspapers of 27 December print the draft theses of the National Council of Agriculture for the Second Congress of the Management of Socialist Farm Units, of the entire peasantry.

Highlighting the substantial achievements scored in the Romanian agriculture in the 1976-1980 quinquennium, the draft document points out that the volume of investments in agriculture has risen, as against the 1966-1970 5-year period by 144.8 percent, while farm output has been 4.1 times bigger in 1980 than in 1950.

Complex measures are laid down for the more sustained development of this basic sector of the country's economy in the future quinquennium period when a deep-going agrarian revolution is to be made and the process of modern, intensive development to get more marked.

Land--the draft document points out--is the property of the entire people and therefore must be used, no matter the character of ownership, in best conditions according to the provisions of the laws, the needs of the national economy and the interests of society.

In connection with the objectives set for the 1981-1985 5-year plan period by the 12th Congress of the RCP, emphasis is placed on the large volume of irrigation, drainage and soil erosion control operations, the improvement of acid terrain, etc, the reclamation for agriculture of another 154 thousand hectares so that the arable land of the country should reach 10 million hectares in 1985. At the end of the next 5-year interval, agriculture will have 140-145 thousand tractors of increased power, 40-42 thousand self-propelled combines, as well as a wide range of machinery allowing of the integral mechanization of basic farm operations, the performance in good conditions of operations in the vegetable and tree-growing sector, in viticulture, as well as in fodder-gathering. In the field of chemicalization, it is stipulated that 3.8-4.0 million tons high analysis fertilizers be used in agriculture in 1981, further attention being given to natural fertilizers, ashes and lime additions.

The provisions of the 5-year plan regarding the implementation of this comprehensive programme have a powerful support in the substantial volume of investments from the funds of the state and of the producer cooperative farms.

In the 1981-1985 quinquennium, farm output will grow by 24.5-27.5 percent. The main stress will fall on the increase of the cereal production stipulated to reach 27-28 million tons a year. Important production increments are stipulated with technical crops, particularly with sugar beet, sunflower, flax and hemp. The importance is highlighted of implementing the programme of development and modernization of vegetable-growing,so that this sector ensures in 1985 a 5.4-5.7 million ton production. As for fruit tree-growing it is stipulated that the action of modernizing existing orchards and setting up intensive and super-intensive ones will be concluded by 1982-1983 so that by the end of the quinquennium production will also be obtained from the new orchards and an improved structure by varieties and species will be obtained. The share of zootechny in farm production is to reach 45-50 percent in 1985, the question of ensuring the proper fodder base being solved.

Highlighting the tasks incumbent on farm bodies at all levels, on socialist units and farm producers, on people's councils and on the ministries concerned with the attainment of these objectives and tasks the draft theses stress the significance of improving planning and developing scientific research in agriculture.

With a view to utilizing, with maximal efficiency, all the material resources and manpower, the volume of the small-scale industry and the value of services in rural localities is to double until 1985. Measures will be taken for the development of the processing industry in small units allowing for the industrialization, on a local plane, of some farm products. To this end, starting in 1981, small-capacity factories for the processing of sugar beet, sunflower, vegetables and fruit will be built.

The joint state and cooperative agro-industrial councils will see to the intensification of production and growth of the economic efficiency of the entire activity, further focusing on the major objective of generalizing the actions of association and cooperation among farm cooperatives, between farm cooperatives and state units and consumer cooperatives in farm production, its superior processing and capitalization, as well as in the field of the small-scale industry, of building operations and services.

Stipulated is also the steady improvement of the activity carried on by farm machinery stations, their organic integration in the production activity of farming units. They will be responsible, alongside their management bodies, for the production and economic results scored.

The document stresses the need for action towards the improvement of the production and financial activity of all state farm enterprises.

Stressing the decisive role devolving on producer cooperative farms as basic units of agriculture, the draft theses highlight the constant concern of the RCP leadership for the improvement of cooperative democracy. In producer cooperative farms--the document points out--action will be undertaken with a view to ensuring a climate appropriate for collective debates on all questions, particularly within the collective management bodies as well as in general meetings, so that the broad masses of cooperative farmers have their say with regard to all the decisions which are to be made and on which the fulfillment in best conditions of the production tasks depends.

Also highlighted are the tasks incumbent on agricultural bodies in actively supporting the cooperative farmers, the other inhabitants of the respective villages, the individual farmers in non-cooperativized areas with everything necessary so that the production potential of individual farmsteads be better capitalized.

In all units, farms and production sectors the principles will be firmly applied of self-management and of the new economic-financial mechanism. The basic criterion in assessing the results scored in each production sub-unit, each collective, will eventually be the net production and the volume of profits. In this context, the theses highlight the tasks devolving on the relevant ministries and the other agricultural bodies, the bank for agriculture and food industry as regards the economic-financial consilidation of each unit, the rigorous application, in all farm units, of the socialist principles of remuneration in keeping with the amount and quality of work done and the results scored in production, as regards the equitable distribution of the incomes derived from work, the setting up and management of the fund of the working people's profit [word indistinct].

The draft theses emphasize the attention paid to the steady improvement of working conditions, social insurance of farm workers, protection of mother and child, of the family, the ensurance of all social rights that the peasantry, the other working people in agriculture have by law. At the same time, the document shows, attention will be paid to recruiting, training and improving the qualification of the agricultural labour force.

A chapter in the draft theses refers to the betterment of the work style and methods of the Ministry of Agriculture and Food Industry, the National Union of Producer Cooperative Farms, of their territorial units, of the activity of the management boards in farm units, to the improvelent and expansion of democracy in all sectors of agriculture, to the ensurance of a more active participation of farm workers in the entire political, economic and social life of the country.

CSO: 2020

AGRICULTURAL COMBINE DIRECTOR INTERVIEWD ON PROSPECTS

Belgrade DUGA in Serbo-Croatian No 174, 25 Oct 80 pp 26-27

[Interview with Jovan Tomovic, general director of Takovo Agroindustrial Combine, by Dusan Savkovic: "Task Number One--The Battle for Food"]

[Text] [Question] Please introduce to our readers the organization which you head.

[Answer] The Takovo Work Organization is engaged in primary agricultural production, the food processing industry and trade. The combine employs 2,700 workers. A much larger number of private farmers have relations with the combine concerning primary agricultural production. We produce 60,000 tons of food a year and have sales of 3 billion new dinars. The conception of an interlinked cycle of development was adopted at the very outset. In a proportional breakdown the food processing industry represents 70 percent of our activity, farming 25 percent and trade 5 percent. I can confidently say that over the 20 years of our existence and operation we have achieved very important results, especially in developing processing capacities in the plants of our food processing industry, that is, in our factories. We began with farming. We planted large orchards and engaged in livestock raising. We soon saw that this kind of production yields a small income and we turned to the food processing industry. Our 60,000 tons of food represent an important achievement. Nevertheless, we are striving for a still higher degree of finalization, to master new technologies and to improve existing ones through innovations. We have purchased foreign know-how in cases when we did not have our own solutions. We are still producing some of our products under foreign licenses: Eurocream, vodka, grape soda....

We Are Not Exporting Enough Because We Are Not Producing Enough

[Question] You are aware that many plants in the food processing industry have been built (coffee-roasting plants, meatpacking plants, flower and oil mills, canning plants, sugar mills, and so on) and that there are now problems with the raw materials necessary for production?

[Answer] That is unfortunately the case even with us. This is the weak point in our development to date. We have built plants and we have been developing them, but we have not secured the raw material base. There is also a high content of substances which we purchase for foreign exchange in the technology of some of our products. For example, we purchase hazelnuts, spices for soups, essences for production of candies and sweets, and then containers, various types of foil, and so on. Aside from these imports which Takovo purchases directly, we also consume petroleum derivatives which though we do not pay for them in foreign exchange, the government does, which in the end is the same thing. Incidentally, when you buy a kilogram of sugar in a store, foreign exchange has been spent even in that kilogram. The equipment for sugar mills is purchased for foreign exchange. However, the share of foreign exchange in Takovo's total output does not exceed 8 percent. This is not much, but in connection with the plan covering the period from 1981 to 1985, which calls for us to reach 100,000 tons of food, which is almost twice as much as today, with minimum investment, we are looking exclusively to domestic raw materials.

[Question] What is the largest concern of the working people of Takovo at this moment?

[Answer] In the short run our principal preoccupation today, that is, our greatest concern, is to achieve maximum output after thorough studies and with the highest possible efficiency. This is our primary task in the stabilization program and in Takovo's contribution to the supply of the market and to augmenting exports. After all, we often hear today that we are not exporting enough. This is an argument frequently used. Why are we not exporting more? Because we do not have anything to export. This should be stated frankly. It is well known that we are importing meat. There is an embargo on the export of sugar. Nor are we exporting coal, since we do not even have enough for our own needs. We are not exporting grain for well-known reasons. The observation stands: the question of larger exports is a question of larger production and higher productivity.

On the Policy of Tightening the Belt

[Question] Do your workers work on Saturday and Sunday?

[Answer] Yes. Not all of them, of course. These are the factories producing Eurocream and soups. The only ones who work are those who themselves decide to spend Saturday or Sunday on the job.

[Question] Many people feel that those are not the right solutions?

[Answer] We need to produce more. This we have proclaimed. Probably overtime work on Saturday and Sunday is not the best solution, but at this point when there is a shortage of Eurocream and soups on the market as well as for export, I think it would not be good management if we did not also make that Saturday and Sunday effort.

[Question] Is the policy of tightening the belt also being conducted in Takovo?

[Answer] No. That would not lead anywhere. We would shut ourselves into a vicious circle. That philosophy of merely surviving really leads nowhere.

[Question] It is thought by some and is a matter of discussion that there are no longer real incentives for higher productivity, that is, because of doubt about the true and fair evaluation of labor, mainly because of the drop in real personal income. If that is the case, how, then, are you going to double production as you mentioned a few moments ago?

[Answer] I do not agree that there are no incentives. We do have incentives at Takovo. Through our labor we have created a large amount of income. A drop in incentive and motivation to raise productivity did come into view. I think that we intervened in time, that we averted that danger. Now we evaluate the price of labor, of course in line with the results we are achieving. Prices are rising, the standard of living of the working people is threatened, and we must compensate for that. So, the rise of real personal income in Takovo, and certainly that will occur, will be based on higher productivity, but partially, to a far lesser extent, on higher prices of our products as well. Income per worker in Takovo is higher than the average income in our republic, but our personal incomes are still lower than the average in the republic. The reason is that we allocate from income a sizable portion for development and for adoption of new technology. I am certain that we have the full consent of the workers, of the entire collective. We are building facilities that are part of the social standard of living, the school system, the health system, and every year we are hiring 200 new workers. It is not a matter of indifference to us where we will eat and how we will eat, where we will get medical care when we are sick, where our children will spend time while we are at work, where we will study, how we will employ new workers, and where we will live. Every year we are purchasing between 30 and 50 dwelling units.

[Question] Over the last several years, to speak in general terms, neither productivity nor real personal income have risen very much. Only prices have been rising. In your opinion has real personal income in the combine which you head been higher than productivity, and is it still?

[Answer] No. It has not been. Nor is it today.

[Question] Is there a fear of the risk of new but also lucrative investment projects? Hasn't the fear of unnecessary investments cramped investment in authentic projects which are very necessary?

[Answer] There is no such fear in Takovo. We have just brought onto the market a new product of ours, "Takovo fruit," and construction of a new plant to produce a product made of flour, milk, sugar and eggs is under way.... This product is called "Brioche." This is a piece of light yeast pastry which is soaked with fruit syrups and juices. This is all made of domestic materials, of domestic raw materials. I must say that in Takovo we have an educated working class, that we have insisted on that. Our workers have been working, but they have also been learning. This is what makes it easier for us to adopt important and far-reaching decisions.

Slaughtering of Livestock--Inestimable Damage

[Question] You spoke about exports. What is Takovo exporting?

[Answer] A million bottles of alcoholic beverages, mainly plum brandy. About 1,000 tons of Eurocream a year to Kuwait, Greece and Syria. We are also exporting soups in packages, forest products....

[Question] You have given up livestock raising?

[Answer] Livestock production is not guided by a precise and long-range policy. The process of reproduction in cattle raising, for example, is a rather lengthy one, since we change many things in the 3 years required for that reproduction. The slaughtering of young livestock, calves, piglets, and lambs, is closely related to this inconsistent policy, though traditions as to our diet also have something to do with it. This is causing us inestimable harm. We believe that suckling pig is the best meat, though it is not, and so on. There has been neglect of sheep raising, which requires neither a great deal of work, nor large investments. We have purchased 1,000 ewes and have put them out mainly with farm households where there are no young people in regions which have abundant pastures. This is in the experiment phase at present. From the cooperators we will get young lambs for export. However, livestock raising should be viewed in the context of farming in general, in which, in my opinion, little has been invested. The prices of farm products are high, since little is produced.

[Question] Do you see the road which Takovo will take in the future?

[Answer] We are paying extremely close attention to the market, i.e., to marketing. I think that we suffer from the small scale of production. At the most two or three out of every 100 enterprises have a marketing service, which means that they do not follow the market, that they do not know it. That is why they are producing everything under the sun, usually goods for which it is hard to find a customer. Through its systematic actions Takovo follows the consumption and sales of its products, and has its ear to the market. We are investing a great deal in marketing, nearly half of the funds we have invested to build the combine. The confirmation has been forthcoming. Members of the work force have remarked to us that the results of our investment are visible and evident, since they yield results.

[Question] Let us return to the beginning of our conversation. You said that the Takovo Combine had from the outset given up what is referred to as primary agricultural production and that your principal weakness is not having secured a raw materials base. How do matters stand now?

[Answer] Yes, that was the case. But now we are again returning to primary agricultural production. We face a resolute battle for food, to increase production in farming, that is, in field cropping, fruit growing, market gardening, and livestock raising.... We have serious plans. As much food as possible will also be our goal.

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